NOTICE AND DISCLAIMER

$500,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

This web site provides access to the electronic version of the Preliminary Official Statement dated September 1, 2004 relating to the above-captioned Bonds.

The electronic version of this document was created in Adobe Portable Document Format (PDF) using Adobe Acrobat 6.0, and you will need Adobe Reader software to accurately read and print it. If you do not have the Adobe Reader, or if you are using a version earlier than that used in Adobe Acrobat 6.0, you may obtain an updated version of the Adobe Reader free of charge from the Adobe web site at www.adobe.com. Using software other than the Adobe Reader included in Adobe Acrobat 6.0 may cause the document that you view or print to differ from the Preliminary Official Statement, and you assume the risk of any such discrepancies as well as any discrepancies related to communication transmission, software differences, or other printing problems. A printed copy of this Preliminary Official Statement may be obtained from the Office of the Treasurer of the State of California, P.O. Box 942809, Sacramento, California 94209-0001, telephone (800) 900-3873. Investment decisions should only be based upon the Preliminary Official Statement (and the final Official Statement when available), whether in printed form or downloaded using the current Adobe Reader.

The Preliminary Official Statement and information contained therein speak only as of the date written above, and may cease to be accurate after such date. The Preliminary Official Statement is subject to completion, amendment or other change without notice. The posting of the Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Offers to purchase the Bonds may only be made through a registered broker-dealer. By electronically accessing the Preliminary Official Statement, you will be deemed to have acknowledged and agreed as follows: (i) you understand and agree to the provisions of this page, (ii) you consent to receive the Preliminary Official Statement in electronic form, (iii) a record will be maintained of your electronic access to the Preliminary Official Statement and of this Notice and Disclaimer, (iv) you agree not to print the Preliminary Official Statement except in its entirety and (v) you will not forward the Preliminary Official Statement to anyone without including the information contained in this Notice and Disclaimer.

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* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 1, 2004

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

NEW ISSUE—BOOK-ENTRY ONLY

Ratings:
Moody's:
S&P:
Fitch:
(see "Ratings" herein)

In the opinion of Co-Bond Counsel, interest on the Bonds is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes, all as further discussed in "TAX MATTERS" herein.

$500,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Dated: September 1, 2004 **Due: March 1, as shown on the inside cover**

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing on March 1, 2005. The Bonds of each maturity will bear interest from their dated date to their maturity or prior redemption at the respective rates set forth on the inside cover page hereof. Bonds may be purchased in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. See "THE BONDS—General" and APPENDIX B—"DTC AND THE BOOK-ENTRY SYSTEM."

Certain of the Bonds are subject to redemption prior to their stated maturities, as described herein. See "THE BONDS—Redemption Provisions."

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. Principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject only to the prior application of such moneys to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS."

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by the Honorable Bill Lockyer, Attorney General of the State of California, by Orrick, Herrington & Sutcliffe LLP and by Curls Bartling Law Group, P.C., Co-Bond Counsel. Sidley Austin Brown & Wood LLP *served as Disclosure Counsel to the State. Public Resources Advisory Group served as the Financial Advisor to the State. The Bonds will be available for delivery on or about September ___, 2004.*

HONORABLE PHILIP ANGELIDES
Treasurer of the State of California

BIDS TO BE RECEIVED 9:00 A.M., CALIFORNIA TIME, SEPTEMBER 9, 2004
SEE APPENDIX E—"NOTICE OF SALE"

Official Statement Dated: September ___, 2004

* Preliminary, subject to change.

$500,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS

Base CUSIP†:

Maturity Date (March 1)*	Principal Amount*	Interest Rate	Price or Yield	CUSIP†
2005	$20,795,000	%	%	
2006	25,000,000			
2007	25,000,000			
2008	25,000,000			
2009	22,500,000			
2010	18,000,000			
2011	9,805,000			
2012	10,295,000			
2013	10,810,000			
2014	11,350,000			
2015	11,915,000			
2016	12,515,000			

Maturity Date (March 1)*	Principal Amount*	Interest Rate	Price or Yield	CUSIP†
2022	$16,770,000	%	%	
2023	17,605,000			
2024	18,485,000			
2025	19,410,000			
2026	20,380,000			
2027	21,400,000			
2028	22,470,000			
2029	23,595,000			
2030	24,775,000			
2031	26,015,000			
2032	27,315,000			
2033	28,680,000			
2034	30,115,000			

(Plus accrued interest from September 1, 2004)

* Preliminary, subject to change.
† A registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc.

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Copies of this Official Statement may be obtained from:

HONORABLE PHILIP ANGELIDES
Treasurer of the State of California
P.O. Box 942809
Sacramento, California 94209–0001
1–800–900–3873

This Preliminary Official Statement and the Notice of Sale are available as public information on the State Treasurer's Internet site at http://www.treasurer.ca.gov

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OFFICIAL STATEMENT

$500,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

INTRODUCTION

This Introduction contains only a brief summary of the terms of the Bonds and a brief description of the Official Statement; a full review should be made of the entire Official Statement, including the Appendices and the financial statements incorporated by reference. Summaries of provisions of the Constitution and laws of the State of California or any other documents referred to in this Official Statement do not purport to be complete and such summaries are qualified in their entirety by references to the complete provisions.

Description of the Bonds

This Official Statement presents certain information relating to the State of California (the "State") in connection with the sale of general obligation bonds in the aggregate principal amount of $500,000,000* (the "Bonds"). The Bonds are described further below under "THE BONDS—Identification and Authorization of the Bonds."

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book–entry form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS—General" and APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM."

The Bonds are authorized by Bond Acts (defined in "AUTHORIZATION OF AND SECURITY FOR THE BONDS—Authorization") approved by the voters of the State and by resolutions of finance committees (the "Resolutions") created under the Bond Acts. The Bonds are being issued for one or more of the following purposes: (i) to finance various projects under the respective Bond Acts, (ii) to currently refund outstanding state general obligation commercial paper notes, and/or (iii) to repay interim loans from the State's Pooled Money Investment Account that financed construction of various projects under the respective Bond Acts, and to pay certain costs of issuance of the Bonds. See "THE BONDS—Purposes of the Bonds."

Security and Source of Payment for the Bonds

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS—Security." Principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, are payable from moneys in the General Fund of the State Treasury (the "General Fund") subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See APPENDIX A — "THE STATE OF CALIFORNIA—STATE FINANCES—The General Fund" and "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds." The Bond Acts authorizing the Bonds provide that the State shall collect annually, in the same manner and at the same time as it collects other State

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* Preliminary, subject to change.

revenues, a sum sufficient, in addition to the ordinary revenues of the State, to pay the principal of and interest on the Bonds.

Redemption

The Bonds of certain maturities will be subject to optional redemption prior to their respective stated maturity dates, in whole or in part, and to mandatory redemption prior to their respective stated maturities, in part, from sinking fund payments made by the State to the extent the successful bidder for the Bonds so designates. See "THE BONDS—Redemption Provisions" and APPENDIX E — "NOTICE OF SALE."

Information Related to this Official Statement

The information set forth herein has been obtained from official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder or any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

All financial and other information presented or incorporated by reference in this Official Statement has been provided by the State from its records, except for information expressly attributed to other sources. The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. However, certain statements included or incorporated by reference in this Official Statement do constitute "forward–looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward–looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward–looking statements. The State does not plan to issue any updates or revisions to those forward–looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur. Any statements made in this Official Statement involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

A wide variety of other information, including financial information, concerning the State is available from State agencies, State agency publications and State agency websites. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted in APPENDIX A – "THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

The information in APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM" has been furnished by DTC and no representation is made by the State, the Financial Advisor or the Underwriters as to the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the State to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

In connection with the offering of the Bonds, the Underwriters may over–allot or effect transactions which stabilize or maintain the market price of the Bonds offered hereby at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction.

Plan of Distribution

Bids will be received by the Honorable Philip Angelides, Treasurer of the State of California, for the purchase of the Bonds. Bids must be delivered by 9:00 A.M., California time, on Thursday, September 9, 2004. The State Treasurer reserves the right, prior to the date of the sale, to modify the Notice of Sale, including changing the principal amounts or redemption provisions of the Bonds offered for sale. Any such modifications will be announced via The Bond Buyer Wire (available on TM3, the Thomson Municipal Market Monitor, at http://www.tm3.com) not later than Wednesday, September 8, 2004, by 11:00 a.m., California time. Bidders are required to bid upon the Bonds as so modified. Any modifications will also be available at the State Treasurer's Internet site at http://www.treasurer.ca.gov. See APPENDIX E — "NOTICE OF SALE."

The State Treasurer reserves the right to postpone or cancel the sale at any time.

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Bonds are outstanding (the "Annual Report"), commencing with the report containing 2003–2004 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events if material. The specific nature of the information to be contained in the Annual Report and the notices of material events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C — "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The State has not failed to comply, in all material respects, with any "previous undertakings," as that term is used in Rule 15c2–12 (the "Rule") promulgated under the Securities and Exchange Act of 1934, as amended.

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

Each general obligation bond act authorizing the issuance of the Bonds (collectively, the "Bond Acts") incorporates by reference the State General Obligation Bond Law (the "Law") in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code. The Law provides for the authorization, sale, issuance, use of proceeds, repayment and refunding of State general obligation bonds.

Security

The Bonds are general obligations of the State, payable in accordance with the Bond Acts out of the General Fund. The Bond Acts provide that the State will collect annually in the same manner and at the same time as it collects other State revenue an amount sufficient, in addition to the ordinary revenue of the State, to pay principal of and interest on the Bonds. The Bond Acts also contain a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the Bonds as they become due and payable. It is an event of default of the State to fail to pay or to fail to cause to be paid the principal of or interest on the Bonds when due or to declare a moratorium on the payment of, or to repudiate any Bond.

The full faith and credit of the State are pledged for the punctual payment of the principal of and the interest on the Bonds. All payments of principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, have an equal claim to the General Fund, subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See APPENDIX A — "THE STATE OF CALIFORNIA—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds."

Remedies

It is an event of default of the State under the Resolutions authorizing Bonds pursuant to the respective Bond Acts to fail to pay or to fail to cause to be paid, when due, or to declare a moratorium on the payment of, or to repudiate any Bond.

In the case one or more events of default occurs, then and in every such case the registered Bondholder is entitled to proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in the Resolutions authorizing Bonds, as more specifically set forth in each Resolution authorizing Bonds pursuant to the respective Bond Acts. Beneficial Owners of the Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See, "THE BONDS—General," and APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM."

THE BONDS

General

The Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book–entry form only in denominations of $5,000 or any integral multiple thereof. See APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM." The information in APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM" has been furnished by DTC and no representation is made by the State, the Financial Advisor or the Underwriters as to the accuracy or completeness of such information.

Neither the State Treasurer nor the Underwriters can or does give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the State

Treasurer nor the Underwriters is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The Bonds will be dated September 1, 2004 and will mature on March 1 of the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable on March 1 and September 1 in each year (each, an "Interest Payment Date), commencing on March 1, 2005, at the rates shown on the inside cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360–day year comprising twelve 30–day months.

Principal and interest are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Participants in DTC for disbursement to the Beneficial Owners of the Bonds. The record date for the payment of interest on the Bonds is the close of business on the 15th day of the month immediately preceding an Interest Payment Date, whether or not the record date falls on a business day.

Identification and Authorization of the Bonds

The Bonds are being issued to finance various projects under the bond acts identified below, to currently refund outstanding state general obligation commercial paper notes issued to finance such projects and/or to repay interim loans from the State's Pooled Money Investment Account that financed such projects authorized by the voters pursuant to the seven separate Bond Acts as set forth below:

$128,390,000* principal amount of State of California Class Size Reduction Kindergarten–University Public Education Facilities Bonds, Series AY, authorized by the Higher Education Facilities Finance Committee under the Class Size Reduction Kindergarten–University Public Education Facilities Bond Act of 1998.

$79,140,000* principal amount of State of California Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bonds, Series N, authorized by the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Finance Committee under the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000.

$61,145,000* principal amount of State of California Kindergarten–University Public Education Facilities Bonds, Series J, authorized by the Higher Education Facilities Finance Committee under the Kindergarten–University Public Education Facilities Bond Act of 2002.

$61,130,000* principal amount of State of California Voting Modernization Bonds, Series A, authorized by the Voting Modernization Finance Committee under the Voting Modernization Bond Act of 2002.

$70,715,000* principal amount of State of California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bonds, Series D, authorized by the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act Finance Committee under the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act of 2002.

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* Preliminary, subject to change.

$54,830,000* principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series L, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act of 2000.

$44,650,000* principal amount of State of California Safe, Clean, Reliable Water Supply Bonds, Series Q, authorized by the Safe, Clean, Reliable Water Supply Finance Committee under the Safe, Clean, Reliable Water Supply Act of 1996.

Purposes of the Bonds

The Bonds are being issued for one or more of the following purposes: (i) to finance various projects under the respective Bond Acts, (ii) to currently refund outstanding state general obligation commercial paper notes, and/or (iii) to repay interim loans from the State's Pooled Money Investment Account that financed construction of various projects under the respective Bond Acts, and to pay certain costs of issuance of the Bonds.

Redemption Provisions

Optional Redemption of Bonds

The Bonds maturing on or before March 1, 2014 are not subject to optional redemption prior to their respective maturities. The Bonds maturing on and after March 1, 2015 are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after September 1, 2014 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

Sinking Fund Redemption

Certain Bonds maturing on a single date (each, the "Term Bonds") are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments made by the State, at a redemption price of 100% of the principal amount thereof plus accrued interest to the sinking fund payment date fixed for redemption, without premium, on March 1 of the years, and in the amounts designated by the successful bidder for the Bonds:

Term Bonds Due March 1, 20__

Sinking Fund Payment Date (March 1)	**Principal Amount Redeemed**
	$
†	

† Maturity date.

* Preliminary, subject to change.

If a Term Bond is called for optional redemption in part (see "Optional Redemption of Bonds" above), the remaining sinking fund installments for such Term Bonds shall be adjusted as determined by the State Treasurer.

Notice of Redemption

When redemption is required while the Bonds are in book–entry form, the State Treasurer is to give notice of redemption by mailing copies of such notice only to DTC (not to the Beneficial Owners of the Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its participants for distribution to the Beneficial Owners of the Bonds. See APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM." The notice from the State Treasurer will state, among other things, that the Bonds or a designated portion thereof (in the case of partial redemption of a Bond) are to be redeemed, the dated date of the Bonds, the date fixed for redemption, the maturities of the Bonds to be redeemed and the redemption price. The notice will also state that after the date fixed for redemption no further interest will accrue on the principal of any Bonds called for redemption. Notice of redemption will also be provided by mail to certain financial information services and securities depositories.

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Annual Debt Service Requirements

The following table sets forth the amounts required to be made available for the payment of principal (whether at maturity or by sinking fund payments), interest and the total payments due on the Bonds.

Fiscal Year Ended June 30	Principal	Interest	Fiscal Year Total Debt Service
2005	$	$	$
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
Total	$	$	$

LEGAL MATTERS

The opinion of the Honorable Bill Lockyer, Attorney General of the State of California (the "Attorney General"), approving the validity of the Bonds will accompany the Bonds deposited with DTC. The opinions of Orrick, Herrington & Sutcliffe LLP and Curls Bartling Law Group, P.C., Co–Bond Counsel, approving the validity of the Bonds and addressing certain tax matters will also accompany the Bonds deposited with DTC. The proposed forms of legal opinions for the Bonds are set forth in APPENDIX D. See "TAX MATTERS" and APPENDIX D — "PROPOSED FORMS OF LEGAL OPINIONS." Sidley Austin Brown & Wood LLP served as Disclosure Counsel to the State.

The Attorney General, Co–Bond Counsel and Disclosure Counsel, respectively, undertake no responsibility for the accuracy, completeness or fairness of this Official Statement, except as otherwise stated in their respective opinions delivered upon the issuance of the Bonds; none of such opinions is addressed to or intended to be relied upon by purchasers of the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP and Curls Bartling Law Group, P.C., Co–Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from State of California personal income taxes. Co–Bond Counsel are of the further opinion that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co–Bond Counsel observe that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinions of Co–Bond Counsel is set forth in APPENDIX D — "PROPOSED FORMS OF LEGAL OPINIONS."

The amount (if any) by which the issue price of the Bonds of any given maturity is less than the amount to be paid on such date (excluding amounts stated to be interest and payable at least annually over term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and which is exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to Bonds of any maturity date accrues daily over the term to such maturity date on the basis of a constant interest rate compounded semiannually (with straight–line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price which a substantial amount of such Bonds is sold to the public.

Any Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax–exempt interest received and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original delivery of the Bonds. The opinions of Co–Bond Counsel assume compliance with these covenants. Co–Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or any other matters coming to the attention of Co–Bond

Counsel after the date of delivery of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Although Co–Bond Counsel are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Co–Bond Counsel express no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Co–Bond Counsel expresses no opinion.

The opinion of Co–Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co–Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Co–Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

Co–Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Co–Bond Counsel is not obligated to defend the State regarding the tax–exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the Beneficial Owners, would have little if any right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax–exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the State or the Beneficial Owners to incur significant expense.

LITIGATION

The Attorney General has advised that to his knowledge there is not now pending (with service of process on the State having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds or any proceedings of the State taken with respect to the foregoing.

At any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate outcome and fiscal impact of such litigation, the State believes that it is unlikely that the outcome of any such litigation could adversely affect the ability of the State to pay the principal of and interest on the Bonds when due. See

APPENDIX A — “THE STATE OF CALIFORNIA—CURRENT STATE BUDGET” and — “LITIGATION.”

FINANCIAL STATEMENTS

Audited General Purpose Financial Statements of the State of California for the Fiscal Year ended June 30, 2003 (the “Financial Statements”) are available. Such Financial Statements have been filed with all of the Nationally Recognized Municipal Securities Information Repositories, as part of an Official Statement relating to the $186,110,000 State Public Works Board Lease Revenue Refunding Bonds (Department of Corrections), Series D and $93,975,000 of State Public Works Board Lease Revenue Refunding Bonds (Department of Corrections), Series E issued in March 2004. The Financial Statements are incorporated by reference into this Official Statement. The Financial Statements are also available through electronic means. No such information is a part of or incorporated into this Official Statement, except as expressly noted in APPENDIX A — “THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS.” Certain unaudited financial information for the twelve months ended June 30, 2004 and the month ended July 31, 2004 are included as Exhibits to APPENDIX A. See APPENDIX A – “THE STATE OF CALIFORNIA—EXHIBIT 1 — STATE CONTROLLER’S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2003 THROUGH JUNE 30, 2004 (UNAUDITED)” and “— EXHIBIT 2 – STATE CONTROLLER’S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2004 THROUGH JULY 31, 2004 (UNAUDITED).”

RATINGS

The Bonds have received ratings of “ ” by Moody’s Investors Service (“Moody’s”), “ ” by Standard & Poor’s, a Division of The McGraw–Hill Companies, Inc. (“S&P”), and “ ” by Fitch Ratings (“Fitch”). An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Bonds. The State can not predict the timing or impact of future actions by the rating agencies. See APPENDIX A — “THE STATE OF CALIFORNIA—INTRODUCTION TO APPENDIX A—California’s Credit History.”

FINANCIAL ADVISOR

Public Resources Advisory Group served as the Financial Advisor to the State in connection with the issuance of the Bonds. Montague DeRose and Associates, LLC served as the Special Products Financial Advisor to the State.

ADDITIONAL INFORMATION

The State Treasurer will execute a certificate upon delivery of the Bonds to the effect that, to the best of the State Treasurer's knowledge, information and belief, as of the delivery date, the information and statements contained in this Official Statement are complete, true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

STATE OF CALIFORNIA
PHILIP ANGELIDES
Treasurer of the State of California

APPENDIX A

THE STATE OF CALIFORNIA

Honorable Philip Angelides
Treasurer of the State of California

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INTRODUCTION TO APPENDIX A

Importance of APPENDIX A. APPENDIX A is the part of the Official Statement that provides investors with information concerning the State of California (the "State"). Investors are advised to read the entire Official Statement, including APPENDIX A, to obtain information essential to making an informed investment decision.

Payment Priority of General Obligation Bonds. The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. Principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject only to the prior application of such moneys to the support of the public school system and public institutions of higher education.

California's Credit History. California has always paid the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-purchase obligations and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due.

In July 2003, Standard & Poor's downgraded the State's general obligation credit rating to "BBB." In December 2003, the State's general obligation credit rating was downgraded to "BBB" by Fitch and "Baa1" by Moody's.

In May 2004, Moody's upgraded the State's general obligation bond rating to "A3" with a positive outlook. In August 2004, following the adoption of the 2004 Budget Act, Fitch removed the State's general obligation bonds from its negative credit watch. Also in August 2004, Standard & Poor's raised its rating on the State's general obligation bonds to "A" from "BBB" and removed the State's general obligation bonds from its credit watch.

Any revisions or withdrawal of a credit rating could have an effect on the market price and liquidity of the Bonds. The State cannot predict the timing or impact of future actions by the rating agencies. See also "RATINGS" in the forepart of this Official Statement.

Overview of APPENDIX A. APPENDIX A begins with a description of recent developments regarding the State's economy and finances and then discusses the types of debt instruments that the State has issued and is authorized to issue in the future. See "RECENT DEVELOPMENTS REGARDING STATE ECONOMY AND FINANCES" and "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." A discussion of the State's current and projected cash flow is contained under "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Flow Borrowings."

APPENDIX A continues with a discussion of the sources and uses of State funds. See "STATE FINANCES." The budget process and constraints on this process, as well as the budget proposed by the Governor and the economic assumptions underlying the revenue projections contained in the proposed budget, are discussed under "THE BUDGET PROCESS" and "CURRENT STATE BUDGET."

Then, APPENDIX A includes or incorporates by reference the Audited Annual Financial Statements of the State for the Year Ended June 30, 2003, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the State and provides an overview of the State's activities for the fiscal year ended June 30, 2003. The State Controller's unaudited reports of cash receipts and disbursements for the period July 1, 2003 through July 31, 2004 are also included in this APPENDIX A. See "FINANCIAL STATEMENTS."

Governance, management and employee information is set forth under "OVERVIEW OF STATE GOVERNMENT." Demographic and economic statistical information is included under "ECONOMY AND POPULATION." APPENDIX A concludes with a description of material litigation involving the State (see "LITIGATION") and debt tables (see "STATE DEBT TABLES").

RECENT DEVELOPMENTS REGARDING STATE ECONOMY AND FINANCES

This section discusses major developments regarding the State's economy and finances that have occurred since the date of the State's most recent Official Statement dated June 17, 2004 relating to its $282,400,000 Various Purpose General Obligation Bonds and its $215,295,000 General Obligation Refunding Bonds.

On July 31, 2004, Governor Schwarzenegger signed the 2004 Budget Act (the "2004 Budget Act") into law. Two measures intended to address the cumulative budget deficit and to implement structural reform were both approved at the March 2, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorizes the issuance of up to $15 billion of economic recovery bonds to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Three series of economic recovery bonds, which were issued on May 11, 2004 and June 16, 2004, provided approximately $11.254 billion of net proceeds to the General Fund. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds, "THE BUDGET PROCESS—Constraints on the Budget Process—Proposition 58 (Balanced Budget Amendment)."

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of debt obligations of the State and its various authorities and agencies. The State has always paid the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-purchase debt and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due. See the introduction to "STATE DEBT TABLES" for information as to indebtedness and other obligations incurred after August 1, 2004.

Capital Facilities Financing

General Obligation Bonds

The State Constitution prohibits the creation of general obligation indebtedness of the State unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund. Under the State Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See "STATE FINANCES—State Expenditures." Certain general obligation bond programs receive revenues from sources other than the sale of bonds or the investment of bond proceeds.

As of August 1, 2004, the State had outstanding $45,901,897,000 aggregate principal amount of long-term general obligation bonds, and unused voter authorizations for the future issuance of $34,542,521,000 of long-term general obligation bonds. This latter figure consists of $19,887,491,000 of general obligation bonds which are authorized by State finance committees to be issued initially as commercial paper notes, described below, and $14,655,030,000 of other authorized but unissued general obligation bonds. These outstanding and authorized amounts include the economic recovery bonds. See

"—Economic Recovery Bonds" below. See also the table "Authorized and Outstanding General Obligation Bonds" under "STATE DEBT TABLES."

General obligation bond law permits the State to issue as variable rate indebtedness up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding. The State has issued $5,374,565,000 of variable rate general obligation bonds (which includes the economic recovery bonds), representing 11.7 percent of the State's total outstanding general obligation bonds as of August 1, 2004.

Initiative measures to issue $3 billion in bonds (California Stem Cell Research and Cures Act) and to issue $750 million in bonds (Children's Hospital Projects Bond Act) have qualified for the November 2004 ballot. Additional proposals affecting State finances or for additional bonds may also be added to the November 2004 ballot. The $9.95 billion bond measure for high speed rail projects that was previously on the November 2004 ballot has been postponed until the November 2006 election. See "CURRENT STATE BUDGET—2004 Budget Act."

Commercial Paper Program

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond issues, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of long-term bonds. The State issues long-term general obligation bonds from time to time to retire its general obligation commercial paper notes. Commercial paper notes are deemed issued upon authorization by the respective finance committees, whether or not such notes are actually issued. Pursuant to the terms of the bank credit agreement presently in effect, the general obligation commercial paper program may have up to $1.5 billion in aggregate principal and interest commitments outstanding at any time. This amount may be increased or decreased in the future. As of August 1, 2004, the finance committees had authorized the issuance of up to $19,887,491,000 of commercial paper notes and, as of that date, $724,515,000 aggregate principal amount of general obligation commercial paper notes were outstanding. See "STATE DEBT TABLES."

Lease-Purchase Obligations

In addition to general obligation bonds, the State builds and acquires capital facilities through the use of lease-purchase borrowing. Under these arrangements, the State Public Works Board, another State or local agency or a joint powers authority issues bonds to pay for the construction of facilities such as office buildings, university buildings or correctional institutions. These facilities are leased to a State agency or the University of California under a long-term lease that provides the source of payment of the debt service on the lease-purchase bonds. In some cases, there is not a separate bond issue, but a trustee directly creates certificates of participation in the State's lease obligation, which are then marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the State Constitutional provisions that require voter approval. For purposes of this Appendix A and the tables under "STATE DEBT TABLES," "lease-purchase obligation" or "lease-purchase financing" means principally bonds or certificates of participation for capital facilities where the rental payments providing the security are a direct or indirect charge against the General Fund and also includes revenue bonds for a State energy efficiency program secured by payments made by various State agencies under energy service contracts. Certain of the lease-purchase financings are supported by special funds rather than the General Fund. See "STATE FINANCES—Sources of Tax Revenue—Special Fund Revenues." The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets. The State had $7,284,902,136 General Fund-supported lease-purchase obligations outstanding as of August 1,

2004. The State Public Works Board, which is authorized to sell lease revenue bonds, had $3,997,129,000 authorized and unissued as of August 1, 2004. In addition, as of that date, certain joint powers authorities were authorized to issue approximately $81,000,000 of revenue bonds to be secured by State leases.

Non-Recourse Debt

Certain State agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from State revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users of facilities financed by the revenue bonds. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. State agencies and authorities had $40,167,099,809 aggregate principal amount of revenue bonds and notes which are non–recourse to the General Fund outstanding as of June 30, 2004, as further described in the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES."

Detailed information regarding the State's long-term debt appears in the section "STATE DEBT TABLES."

Pension Obligation Bonds

Pursuant to the California Pension Restructuring Bond Act of 2004, Government Code Section 16940, *et seq.* (the "Restructuring Bond Act"), the Pension Obligation Bond Committee (the "Committee") is authorized to issue bonds to fund the State's employer contributions to the California Public Employees' Retirement System ("CalPERS"), in any two future fiscal years. The Restructuring Bond Act limits the cumulative amount of bonds that may be issued to an amount calculated in relation to the anticipated reduction in the State's employer contributions to CalPERS resulting from changes in law, as such anticipated reduction is determined by the Director of Finance. The Restructuring Bond Act provides that debt service on any bonds issued pursuant to the Restructuring Bond Act will be payable from the General Fund.

Chapter 214, Statutes 2003-04, includes reforms to the State's pension benefits, which the Administration estimates will reduce pension costs by $2.9 billion over the next 20 years. See "STATE FINANCES—Pension Trusts" and "CURRENT STATE BUDGET—2004 Budget Act." The Administration anticipates that bonds will be issued pursuant to the Restructuring Bond Act on or before April 1, 2005, and that the proceeds of such bonds will be available to fund the April and June 2005 payments of the State's fiscal year 2004-05 employer contribution obligation to CalPERS.

It is expected that, if the Committee authorizes the issuance of bonds pursuant to the Restructuring Bond Act, it will initiate a validation action seeking court determination that the bonds will not be in violation of the Constitutional debt limit because the proceeds of the bonds will be used to pay the State's employer contribution obligation to CalPERS, which is an "obligation imposed by law." In 2003 the Committee authorized the issuance of pension obligation bonds pursuant to the California Pension Obligation Financing Act, Government Code Section 16910, *et seq.* (the "Pension Bond Act"), to fund the State's fiscal year 2003-04 employer contribution obligation to CalPERS. The Committee initiated a validation action seeking a court determination that those bonds would not be in violation of the Constitutional debt limit because the State's 2003-04 fiscal year employer contribution obligation to CalPERS was an "obligation imposed by law." The trial court in that case rendered a decision which did not validate the bonds. The Committee appealed the trial court's decision. However, because the Pension

Bond Act prohibited the issuance of bonds after June 30, 2004, the Committee's pending appeal was dismissed in June 2004. The decision of the trial court, which by its terms pertains to the bonds authorized by the Committee under the Pension Bond Act for the purpose of funding the State's 2003-04 fiscal year obligation to CalPERS, remains in effect.

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters at the statewide primary election on March 2, 2004. Proposition 57 authorizes the issuance of up to $15 billion in economic recovery bonds to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the economic recovery bonds is secured by a pledge of revenues from a one-quarter cent increase in the State's sales and use tax starting July 1, 2004. Fifty percent of each annual deposit, or up to $5 billion in the aggregate of future deposits in the reserve fund created by the Balanced Budget Amendment ("Proposition 58"), is to be used to repay the economic recovery bonds. In addition, as voter-approved general obligation bonds, the economic recovery bonds are secured by the State's full faith and credit. However, moneys in the General Fund will only be used in the event the dedicated sales and use tax revenue is insufficient to repay the bonds.

The State has issued $10.896 billion principal amount of economic recovery bonds, resulting in the deposit of net proceeds to the General Fund of approximately $11.254 billion during the 2003-04 fiscal year (of which, for budgetary purposes, approximately $9.2 billion was applied to the 2003-04 fiscal year and approximately $2 billion will be applied to offset fiscal year 2004-05 General Fund expenditures). The State may issue the remainder of authorized economic recovery bonds in the current or future fiscal years. See "CURRENT STATE BUDGET—2004 Budget Act."

Tobacco Settlement Revenue Bonds

In 1998 the State signed a settlement agreement with the four major cigarette manufacturers. Under the settlement agreement, the cigarette manufacturers agreed to make payments to the State in perpetuity, which payments amount to approximately $25 billion (subject to adjustments) over the first 25 years. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers will be paid to the State and half to local governments (all counties and the cities of San Diego, Los Angeles, San Francisco and San Jose). The specific amount to be received by the State and local governments is subject to adjustment. Details in the settlement agreement allow reduction of the manufacturers' payments for decreases in cigarette shipment volumes by the settling manufacturers, payments owed to certain "Previously Settled States" and certain types of offsets for disputed payments, among other things. However, settlement payments are adjusted upward each year by at least 3 percent for inflation, compounded annually.

Chapter 414, Statutes of 2002, enacted Government Code Sections 63049 to 63049.5 (the "Tobacco Securitization Law"), which authorized the issuance of revenue bonds secured by the tobacco settlement revenues received by the State beginning in the 2003-04 fiscal year. An initial sale of 56.57 percent of the State's tobacco settlement revenues producing $2.5 billion in proceeds was completed in January 2003.

A second sale of the remaining 43.43 percent of the State's tobacco settlement revenues, which produced $2.264 billion in proceeds, was completed in September 2003. Chapter 225, Statutes of 2003, amended the Tobacco Securitization Law to require the Governor to request an appropriation in the annual Budget Act to pay debt service and other related costs of the tobacco settlement revenue bonds secured by the second (and only the second) sale of tobacco settlement revenues when such tobacco settlement revenues are insufficient therefor. The Legislature is not obligated to make any such requested appropriation.

Tobacco settlement revenue bonds are neither general nor legal obligations of the State or any of its political subdivisions and neither the faith and credit nor the taxing power nor any other assets or revenues of the State or of any political subdivision is or shall be pledged to the payment of any such bonds.

Cash Flow Borrowings

As part of its cash management program, the State has regularly issued short-term obligations to meet cash flow needs. The State has issued revenue anticipation notes ("Notes" or "RANs") in 19 of the last 20 fiscal years to partially fund timing differences between receipts and disbursements, as the majority of General Fund revenues are received in the last part of the fiscal year. By law, RANs must mature prior to the end of the fiscal year of issuance. If additional external cash flow borrowings are required, the State has issued revenue anticipation warrants ("RAWs"), which can mature in a subsequent fiscal year. See "STATE FINANCES—State Warrants." RANs and RAWs are both payable from any "Unapplied Money" in the General Fund of the State on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" are payments as and when due to: (i) support the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the Constitution of the State), (ii) pay principal of and interest on general obligation bonds and general obligation commercial paper notes of the State, (iii) provide reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to California Government Code Sections 16310 or 16418; and (iv) pay State employees' wages and benefits, State payments to pension and other State employee benefit trust funds, State Medi-Cal claims, and any amounts determined by a court of competent jurisdiction to be required to be paid with State warrants that can be cashed immediately. See "STATE FINANCES" below.

On June 18, 2003, the Controller issued $10.965 billion of 2003 Revenue Anticipation Warrants (the "2003 Warrants"), which matured and were paid in full on June 16, 2004. The State also issued $3 billion of RANs on October 28, 2003 (the "2003-04 RANs"), which matured and were paid in full on June 23, 2004. The most recent cash flow projections prepared by the Department of Finance anticipate the issuance of $6 billion of RANs in October 2004 to mature in June 2005.

The following table shows the amount of RANs and RAWs issued in the past five fiscal years.

TABLE 1
State of California Revenue Anticipation Notes and Warrants Issued
Fiscal Years 1999-00 to 2003-04

Fiscal Year	Type	Principal Amount (Billions)	Date of Issue	Maturity Date
1999-00	Notes Series A-B	$1.00	October 1, 1999	June 30, 2000
2000-01	No Notes issued			
2001-02	Notes Series A-C	5.70	October 4, 2001	June 28, 2002
	RAWs Series A	1.50	June 24, 2002	October 25, 2002
	RAWs Series B	3.00	June 24, 2002	November 27, 2002
	RAWs Series C	3.00	June 24, 2002	January 30, 2003†
2002-03	Notes Series A and C	6.00	October 16, 2002	June 20, 2003
	Notes Series B and D	3.00	October 16, 2002	June 27, 2003
	Notes Series E – G	3.50	November 6, 2002	June 20, 2003
	RAWs Series A and B	10.965	June 18, 2003	June 16, 2004
2003-04	Notes	3.00	October 28, 2003	June 23, 2004

† Called by the Controller and paid on November 27, 2002.

Source: State of California, Office of the Treasurer.

STATE FINANCES

The General Fund

The moneys of the State are segregated into the General Fund and over 900 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of State moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the State. For additional financial data relating to the General Fund, see the financial statements incorporated in or attached to this APPENDIX A. See "FINANCIAL STATEMENTS." The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various constitutional authorizations and initiative statutes.

The Special Fund for Economic Uncertainties

The Special Fund for Economic Uncertainties ("SFEU") is funded with General Fund revenues and was established to protect the State from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer amounts in the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred without payment of interest as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

The legislation creating the SFEU (Government Code Section 16418) contains a continuous appropriation from the General Fund authorizing the State Controller to transfer to the SFEU, as of the end of each fiscal year, the lesser of (i) the unencumbered balance in the General Fund and (ii) the difference between the State's "appropriations subject to limitation" for the fiscal year then ended and its "appropriations limit" as defined in Section 8 of Article XIII B of the State Constitution and established in the Budget Act for that fiscal year, as jointly estimated by the State's Legislative Analyst's Office ("LAO") and the Department of Finance. For a further description of Article XIII B, see "State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

See Table 2 entitled "Internal Borrowable Resources (Cash Basis)" for information concerning the recent balances in the SFEU and projections of the balances for the current and upcoming fiscal years. As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Other factors, including re-estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may impact the fiscal year-end balance in the SFEU.

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the Pooled Money Investment Board (the "PMIB," comprised of the State Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds. When moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed ten percent of the total additions to such special fund as shown in the statement of operations of the preceding fiscal year as set forth in the Budgetary (Legal Basis) annual report of the State Controller, interest must be paid on such excess at a rate determined by the PMIB to be the current earning rate of the Pooled Money Investment Account.

As of July 31, 2004, $3.169 billion of outstanding loans from the SFEU and other internal sources were used to pay expenditures of the General Fund. See "STATE FINANCES—State Warrants" and "EXHIBIT 1—STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2003 THROUGH JUNE 30, 2004 (UNAUDITED)" and "EXHIBIT 2—STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2004 THROUGH JULY 31, 2004 (UNAUDITED)."

Any determination of whether a proposed borrowing from one of the special funds is permissible must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The Attorney General of the State has identified certain criteria relevant to such a determination. For instance, amounts in the special funds eligible for inter-fund borrowings are legally available to be transferred to the General Fund if a reasonable estimate of expected General Fund revenues, based upon legislation already enacted, indicates that such transfers can be paid from the General Fund promptly if needed by the special funds or within a short period of time if not needed. In determining whether this requirement has been met, the Attorney General has stated that consideration may be given to the fact that General Fund revenues are projected to exceed expenditures entitled to a higher priority than payment of internal transfers, i.e., expenditures for the support of the public school system and public institutions of higher education and the payment of debt service on general obligation bonds of the State.

At the November 1998 election, voters approved Proposition 2. This proposition requires the General Fund to repay loans made from certain transportation special accounts (such as the State Highway Account) at least once per fiscal year, or up to 30 days after adoption of the annual Budget Act. Since the General Fund may reborrow from the transportation accounts any time after the annual repayment is made, the proposition does not have any adverse impact on the State's cash flow.

In addition to temporary inter-fund borrowings described in this section, budgets enacted in the current and past fiscal years have included other transfers and long-term loans from special funds to the General Fund. In some cases, such loans and transfers have the effect of reducing internal borrowable resources.

The following chart shows internal borrowable resources available for temporary loans to the General Fund on June 30 of each of the fiscal years 2000-01 through 2003-04 and estimates, as of August 16, 2004, for fiscal year 2004-05. See also "EXHIBIT 1—STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2003 THROUGH JUNE 30, 2004 (UNAUDITED)" and "EXHIBIT 2—STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2004 THROUGH JULY 31, 2004 (UNAUDITED)."

TABLE 2
Internal Borrowable Resources
(Cash Basis)
(Millions)

	June 30				
	2001	**2002[(a)]**	**2003[(b)]**	**2004**	**2005[(c)]**
Available Internal Borrowable Resources	$12,342.4	$12,979.7	$10,401.5	$9,951.3	$7,827.9
Outstanding Loans					
From Special Fund for Economic Uncertainties	-0-	2,524.5	-0-	-0-	768.0
From Special Funds and Accounts	-0-	423.5	-0-	-0-	2,565.7
Total Outstanding Internal Loans	-0-	2,948.0	-0-	-0-	3,333.7
Unused Internal Borrowable Resources	$12,342.4	$10,031.7	$10,401.5	$9,951.3	$4,494.2

(a) At June 30, 2002, the State also had $7.5 billion of outstanding external borrowings in the form of revenue anticipation warrants.

(b) At June 30, 2003, the State also had $10.965 billion of outstanding external borrowings in the form of revenue anticipation warrants.

(c) Department of Finance estimates as of August 16, 2004. Estimates include the receipt of $11.254 billion of economic recovery bond proceeds to the General Fund resulting from the issuance of three series of economic recovery bonds.

Source: State of California, Department of Finance. Information for the fiscal years ended June 30, 2001 through June 30, 2004, are actual figures. Figures for the fiscal years ending June 30, 2005 were estimated as of August 16, 2004 by the Department of Finance.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by State law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. State law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the State with a higher priority. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Cash Flow Borrowings." Unapplied Money may include moneys transferred to the General Fund from the SFEU and internal borrowings from State special funds (to the extent permitted by law). See "STATE FINANCES—The Special Fund for Economic Uncertainties" and "—Inter-Fund Borrowings."

Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be set apart for obligations having priority over obligations to which such warrant is applicable, the warrant must be registered by the State Treasurer on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller then delivers such a "registered warrant" to persons or entities (e.g., suppliers and local governments) otherwise entitled to receive payments from the State. A registered warrant bears interest at a rate designated by the PMIB up to a maximum of five percent per annum or at a higher rate if issued for an unpaid revenue anticipation note or in connection with some form of credit enhancement. Registered warrants may or may not have a fixed maturity date. Registered warrants that have no fixed maturity date, and registered warrants that bear a maturity date but, for lack of Unapplied Moneys, were not paid at maturity, are paid, together with all interest due, when the Controller, with the approval of the PMIB, determines payment will be made. The State Controller then notifies the State Treasurer, who publishes a notice that the registered warrants in question are payable. The duties of the Controller and the PMIB are ministerial in nature, and the Controller and the PMIB may not legally refuse to pay the principal of or interest on any registered warrants on any date Unapplied Moneys are available in the General Fund after all Priority Payments have been made on that date.

Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, State law provides an alternative procedure whereby the Governor, upon request of the Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other State special funds to meet payments authorized by law. The Controller may then issue "reimbursement warrants" in the financial market at competitive bid to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants may have a fixed maturity date.

The principal of and interest on reimbursement warrants must be paid by the Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding warrants (see "—Refunding Warrants") have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the Controller, with the approval of the PMIB, may determine.

The State issued reimbursement warrants on several occasions in order to meet its cash needs during the period 1992-1994, when State revenues were severely reduced because of an economic recession. Facing renewed economic pressures, the State issued reimbursement warrants in June 2002 and in June 2003. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Cash Flow Borrowings."

Refunding Warrants

If there is not sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the Controller is authorized under State law, with the written approval of the Treasurer, to offer and sell a new issue of reimbursement warrants as refunding warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding warrants have the same legal status and provisions as reimbursement warrants, as described above.

Sources of Tax Revenue

The following is a summary of the State's major revenue sources. Further information on State revenues is contained under "CURRENT STATE BUDGET" and "STATE FINANCES—Recent Tax Receipts." See Table 4 entitled "Comparative Yield of State Taxes—All Funds, 1999-00 Through 2004-05" for a comparison, by amount received, of the sources of the State's tax revenue.

The 2004 Budget Act includes the effect of the following tax related proposals on the General Fund:

- Tax amnesty program: Two-month personal income tax, corporation tax, and sales and use tax program for tax years prior to 2003 (an estimated $333 million, reflected as a prior year adjustment).
- Vehicle, vessel, and aircraft use tax: Tax due if items used within one-year of use in-state, with specified exceptions for vessel and aircraft repair. This provision will sunset July 1, 2006 (estimated revenues of $26 million in fiscal year 2004-05).
- Teacher Tax Credit: Two-year suspension (estimated revenues of $210 million in fiscal year 2004-05).
- Natural Heritage Preservation Tax Credit: Suspension for fiscal year 2004-05 and extension of the sunset date to June 30, 2008 (estimated revenues of $10 million in fiscal year 2004-05).

Personal Income Tax

The California personal income tax, which accounts for a significant portion of General Fund tax revenues, is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1.0 percent to 9.3 percent. The personal income tax is adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the State Franchise Tax Board indicates that the top 1 percent of taxpayers paid 36.7 percent of the total personal income tax in tax year 2002.

Proposition 63, an initiative measure that has qualified for the November 2004 election, would impose a 1 percent surcharge on taxpayers with taxable income over $1 million. The proceeds of the tax surcharge would be used to expand county mental health programs.

Taxes on capital gains realizations and stock options, which are largely linked to stock market performance, can add a significant dimension of volatility to personal income tax receipts. Capital gains and stock option tax receipts have accounted for as much as 24.7 percent and as little as 5.6 percent of General Fund revenues in the last ten years. See "CURRENT STATE BUDGET—Economic Assumptions."

Sales Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

The breakdown of the base state and local sales tax rate of 7.25 percent in effect until July 1, 2004, was as follows:

- 5 percent is imposed as a State General Fund tax;
- 0.5 percent is dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent is dedicated to local governments for public safety services (Local Public Safety Fund);
- 1.25 percent is a local tax imposed under the Uniform Local Sales and Use Tax Law. Of that amount, 0.25 percent is dedicated to county transportation purposes, and 1 percent is for city and county general-purpose use.

Effective July 1, 2004, the breakdown of the base state and local sales tax rate of 7.25 percent is as follows:

- 5 percent imposed as a State General Fund tax;
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund);
- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use (See below for a discussion of a court action seeking to prohibit the State Board of Equalization from implementing a one-quarter cent reduction in the local government sales and use tax, which was enacted at the time of the authorization of the State economic recovery bonds);
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the State's economic recovery bonds (the "Special Sales Tax").

Existing law provides that 0.25 percent of the basic 5.00 percent State tax rate may be suspended in any calendar year upon certification by the Director of Finance by November 1 in any year in which both of the following occur: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent sales and use tax rate) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent sales and use tax rate) and (2) actual revenues for the period May 1 through September 30 equal or exceed the May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The May Revision forecast estimated that the reserve level will be insufficient to trigger a reduction for calendar year 2005. See "CURRENT STATE BUDGET—Summary of State Revenues and Expenditures" for a projection of the fiscal year 2004-05 General Fund reserve.

Existing law provides that the Special Sales Tax will be collected until the first day of the calendar quarter at least 90 days after the Director of Finance certifies that all economic recovery bonds and related obligations have been paid or retired or provision for their repayment has been made or enough sales taxes have been collected to pay all economic recovery bonds and related obligations to final maturity. At such time the Special Sales Tax will terminate and the city and county portion of taxes under the Uniform Local Sales and Use Tax will be automatically increased by 0.25 percent.

Over three dozen cities filed a petition for writ of mandate in the Alameda County Superior Court (*City of Cerritos et al. v. State Board of Equalization*) seeking to prohibit the State Board of Equalization from implementing a one-quarter cent reduction in the amount of sales and use tax that may be collected by local governments. This reduction was approved by the Legislature as part of Chapter 2 of the Statutes of 2003, Fifth Extraordinary Session, which also enacted the California Economic Recovery Bond Act (approved by the electorate as Proposition 57) and a one-quarter cent increase in the State sales and use tax to secure the State's economic recovery bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds." Neither the petition filed by the cities nor the cities' briefs filed in this matter challenge the authorization for the issuance of the economic recovery bonds or the imposition of the temporary one-quarter cent increase in the State sales and use tax. A hearing on the petition was held May 14, 2004 and on June 3, 2004 the court issued an order denying the cities' petition. The cities have appealed the court's decision and the matter is now pending in the Court of Appeal (Third Appellate District, Case No. A107208).

Senate Constitutional Amendment No. 4, which is subject to the approval of the voters in the November 2004 election, would place restrictions on the State from reducing local sales tax rate. Proposition 65, which has also qualified for the November 2004 ballot, would reestablish the local sales tax rate at 1.25 percent upon the payment of the economic recovery bonds. Either Senate Constitutional Amendment No. 4 or Proposition 65, if approved by the voters, would restrict the State's ability to reduce or reallocate local sales tax revenues in the future. See "STATE FINANCES—Local Governments."

Corporation Tax

Corporation tax revenues are derived from the following taxes:

1. The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the State.

2. Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

3. The AMT is similar to that in federal law. In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

4. A minimum franchise tax of up to $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. New corporations are exempted from the minimum franchise tax for the first two years of incorporation.

5. Sub-Chapter S corporations are taxed at 1.5 percent of profits.

Taxpayers with net operating losses (i.e., an excess of allowable deductions over gross income) are allowed to carry forward those losses for tax purposes and deduct a portion in subsequent years. Chapter 488, Statutes of 2002 (AB 2065), suspends the use of any carryover losses for the 2002 and 2003 tax years, but allows taxpayers to deduct those losses beginning in the 2004 tax year and extends the expiration date for those losses by two years. That Chapter also increases the percent of a taxpayer's net operating loss ("NOL") that can be carried forward from 65 percent to 100 percent beginning January 1, 2004, for NOLs generated after that date. About 85 percent of NOL is deducted from corporation taxes with the balance deducted from personal income tax.

On February 23, 2004, the U.S. Supreme Court denied the State Franchise Tax Board's appeal requesting review of the decision in *Farmer Brothers Company v. Franchise Tax Board*, a tax refund case which involved the deductibility of corporate dividends. The exact amount and timing of such refunds is yet to be determined, although potential revenue losses could total $400 million over several fiscal years through 2007-08 (some revenue gains are expected in fiscal years after that). The reduction in General Fund revenues could result in lower Proposition 98 expenditures; however the potential savings in Proposition 98 expenditures is unknown at this time.

Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and nonadmitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits.

Estate Tax; Other Taxes

The California estate tax is based on the State death tax credit allowed against the federal estate tax. The California estate tax is designed to pick up the maximum credit allowed against the federal estate tax return. The federal Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduced the State pick-up tax by 25 percent in 2002, 50 percent in 2003, and 75 percent in 2004, and eliminates it beginning in 2005. The provisions of this federal act sunset after 2010. At that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the provisions permanent. See Table 4 entitled "Comparative Yield of State Taxes—All Funds, 1999-00 Through 2004-05."

Other General Fund major taxes and licenses include: Inheritance and Gift Taxes; Cigarette Taxes; Alcoholic Beverage Taxes; Horse Racing License Fees and Trailer Coach License Fees.

Special Fund Revenues

The California Constitution and statutes specify the uses of certain revenue. Such receipts are accounted for in various special funds. In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.

- Charges for special services to specific functions, including such items as business and professional license fees.

- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle related taxes and fees accounted for about 46 percent of all special fund revenues and transfers in fiscal year 2002-03. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. During fiscal year 2002-03, $7.1 billion was derived from the ownership or operation of motor vehicles. About $3 billion of this revenue was returned to local governments. The remainder was available for various State programs related to transportation and services to vehicle owners. For a discussion of proposed agreements to replace vehicle license fees with increased property tax revenues, see "STATE FINANCES – Local Governments – Vehicle License Fee."

Taxes on Tobacco Products

On November 8, 1988, voters approved Proposition 99, which imposed, as of January 1, 1989, a 25-cent per pack excise tax on cigarettes, and a new, equivalent excise tax on other tobacco products. The initiative requires that funds from this tax be allocated to anti-tobacco education and research, to indigent health services, and environmental and recreation programs.

Proposition 10, which was approved in 1998, increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds going to the Cigarette and Tobacco Products Surtax Fund.

The State excise tax on cigarettes of 87 cents per pack and the equivalent rates on other tobacco products are earmarked as follows:

1. Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non–cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs.

2. Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund. These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

3. Ten cents of the per-pack tax is allocated to the State's General Fund.

4. The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Recent Tax Receipts

The following table shows the trend of major General Fund and total taxes per capita and per $100 of personal income for the past five years, and the current year.

TABLE 3
RECENT TAX RECEIPTS

	Trend of State Taxes per Capita[a]		Taxes per $100 of Personal Income	
Fiscal Year	**General Fund**	**Total**	**General Fund**	**Total**
1999-00	$2,095.53	$2,447.03	$7.01	$8.18
2000-01	2,219.26	2,585.25	6.85	7.99
2001-02	1,802.22	2,106.63	5.52	6.45
2002-03	1,836.25	2,134.58	5.62	6.53
2003-04[b]	1,948.19	2,258.90	5.84	6.77
2004-05[b]	2,045.75	2,370.64	5.90	6.83

(a) Data reflect population figures based on the 2000 Census.

(b) Estimated.

Source: State of California, Department of Finance.

The following table gives the actual and estimated revenues by major source for the last five years and the current year. This table shows taxes that provide revenue both to the General Fund and State special funds.

TABLE 4
COMPARATIVE YIELD OF STATE TAXES—ALL FUNDS
1999-00 THROUGH 2004-05
(Modified Accrual Basis)
(Thousands of Dollars)

Year Ending June 30	Sales and Use[(a)]	Personal Income	Corporation	Tobacco	Inheritance, Estate and Gift	Insurance	Alcoholic Beverages	Horse Racing	Motor Vehicle Fuel[(b)]	Motor Vehicle Fees[(c)]
2000	$25,525,788[(e)]	$39,578,237	$6,638,898	$1,216,651	$928,146	$1,299,777	$282,166	$44,130	$3,069,694	$5,263,245
2001	26,616,073[(e)]	44,618,532	6,899,322	1,150,869	934,709	1,496,556	288,450	42,360	3,142,142	5,286,542
2002	26,004,521[(e)]	33,051,107	5,333,030	1,102,806	890,627	1,595,846	292,627	42,247	3,295,903	3,836,795
2003	27,177,756[(e)]	32,713,830	6,803,583	1,055,505	647,372	1,879,784	290,564	40,509	3,202,512	3,965,410
2004[(d)]	26,289,755[(f)]	36,000,000	7,280,000	1,055,100	400,000	2,090,000	300,800	42,245	3,300,369	4,318,151
2005[(d)]	29,118,223[(f)]	38,974,000	7,572,500	1,035,000	135,400	2,195,000	302,000	42,457	3,322,018	3,589,397

(a) Numbers include local tax revenue from the 0.5 percent rate increase dedicated to local governments for the State-local health and welfare program realignment program. The 0.5 percent rate is equivalent to about $2.3 billion to $2.5 billion per year. The figures also reflect a statutory 0.25 percent reduction which occurred only during calendar year 2001.

(b) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(c) Registration and weight fees, motor vehicle license fees and other fees. Vehicle license fee values reflect a 35 percent reduction of two percent of a vehicle's depreciation value from the 1998 rate of 2 percent for 2000 and the first half of 2001; a 67.5 percent reduction from such rate for the second half of 2001 and thereafter.

(d) Estimated as of July 31, 2004.

(e) The figures do not include voter approved local revenue, the 1.0 percent local city and county operations revenue (Bradley-Burns), or the 0.25 percent county transportation funds revenue. They do include the 0.50 percent Local Public Safety Fund revenue.

(f) Unlike the figures for fiscal years ending June 30, 2000, through June 30, 2003, these estimated figures do not include the 0.50 percent Local Public Safety Fund revenue. These estimated figures also do not include voter approved local revenue, the 1.0 percent local city and county operations revenue (Bradley-Burns), or the 0.25 percent county transportation funds revenue. Estimate for fiscal year 2004-05 includes $1.136 billion for a temporary one-quarter cent tax increase to be deposited in the Fiscal Recovery Fund and used for repayment of the economic recovery bonds. See "Sources of Tax Revenue—Sales Tax".

NOTE: This table shows taxes which provide revenue both to the General Fund and State special funds. Also, some revenue sources are dedicated to local governments. This accounts for differences between the information in this table and Table 12.

Source: Fiscal years 1999-00 through 2002-03: State of California, Office of the State Controller.
Fiscal years 2003-04 and 2004-05: State of California, Department of Finance.

State Expenditures

The following table summarizes the major categories of State expenditures, including both General Fund and special fund programs.

TABLE 5
GOVERNMENTAL COST FUNDS
(Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 1998-99 to 2002-03
(Thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03
Function					
Legislative, Judicial, Executive					
Legislative	$ 219,814	$ 232,323	$ 262,370	$ 265,312	$ 276,462
Judicial[(a)]	1,346,131	1,372,681	1,478,710	1,633,518	2,524,446
Executive	958,189	1,241,219	1,352,128	1,371,891	1,283,297
State and Consumer Services	829,745	856,096	950,192	1,100,942	955,054
Business, Transportation and Housing					
Business and Housing	136,893	156,499	601,053	240,237	184,573
Transportation	4,462,905	5,549,520	4,417,139	6,052,926	3,712,133
Technology, Trade and Commerce	130,796	488,489	140,833	81,832	50,335
Resources	1,695,323	1,858,844	3,349,003	2,284,269	1,993,957
Environmental Protection	600,060	689,678	869,539	993,144	762,052
Health and Human Services	19,616,132	21,806,291	24,204,531	26,563,743	27,420,865
Correctional Programs	4,181,474	4,412,542	4,952,927	5,242,369	5,614,849
Education					
Education–K through 12	22,783,975	26,356,838	28,720,596	28,078,228	27,611,356
Higher Education	7,838,117	8,553,343	9,655,954	9,945,193	9,951,749
Labor and Workforce Development[(b)]	N/A	N/A	N/A	N/A	250,616
General Government					
General Administration	859,703	982,923	1,294,587	2,475,564	1,830,280
Debt Service	1,988,176	2,072,960	2,270,649	2,432,942	2,067,815
Tax Relief	450,213	1,840,129	4,655,826	3,028,703	4,446,940
Shared Revenues	4,151,197	3,677,687	4,385,429	5,528,996	2,784,970
Brown vs. US Dept. of Health and Human Services	–	–	–	96,000	–
Other Statewide Expenditures	891,070	580,307	635,475	476,170	526,863
Expenditure Adjustment for Encumbrances[(c)]	(461,310)	(628,506)	(1,943,208)	(681,856)	2,365,728
Credits for Overhead Services by General Fund	(144,041)	(170,594)	(197,343)	(251,575)	(288,871)
Statewide Indirect Cost Recoveries	(32,791)	(37,423)	(36,610)	(47,862)	(50,313)
Total	$72,501,771	$81,891,846	$92,019,780	$96,910,686	$96,275,156
Character					
State Operations	$21,092,849	$22,864,874	$24,850,286	$27,994,343	$26,241,065
Local Assistance	50,734,442	58,369,828	66,087,018	67,993,721	69,043,191
Capital Outlay	674,480	657,144	1,082,476	922,622	990,900
Total	$72,501,771	$81,891,846	$92,019,780	$96,910,686	$96,275,156

(a) Included in this amount are the expenditures of the Trial Court Trust Fund. As of July 1, 2002, the Trial Court Trust Fund was reclassified to a Governmental Cost Fund from a Non-Governmental Cost Fund.

(b) Legislation was enacted effective January 1, 2003 which created a new agency function called the Labor and Workforce Development. The following agencies were transferred from General Government to this new function: the Employment Development Department, the California Workforce Investment Board, the Agricultural Labor Relations Board, and the Department of Industrial Relations.

(c) Expenditures for the State Highway Account (Fund 0042) and the Traffic Congestion Relief Fund (Fund 3007) are reported on a modified cash basis. This method of accounting eliminated all of the continuing appropriations in these two funds.

Source: State of California, Office of the State Controller.

State Appropriations Limit

The State is subject to an annual appropriations limit imposed by Article XIII B of the State Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

Article XIII B prohibits the State from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the State, are authorizations to spend "proceeds of taxes," which consist of tax revenues, and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most State subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

There are various types of appropriations excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in State per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years, is divided equally between transfers to K-14 districts and refunds to taxpayers.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government Code Section 7912 requires an estimate of the Appropriations Limit to be included in the Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2000-01 through 2004-05.

As of the release of the 2004 Budget Act, the Department of Finance projected the Appropriations Subject to Limit to be \$13.698 billion and \$12.524 billion under the Appropriations Limit in fiscal years 2003-04 and 2004-05, respectively.

TABLE 6
STATE APPROPRIATIONS LIMIT
(Millions)

	Fiscal Years				
	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**
State Appropriations Limit	$54,073	$59,318	$59,591	$61,702	$64,588*
Appropriations Subject to Limit	(51,648)	(42,240)	(45,832)	(48,004)*	(52,064)*
Amount (Over)/Under Limit	$2,425	$ 17,078	$13,759	$13,698*	$12,524*

* Estimated/Projected.

Source: State of California, Department of Finance.

Proposition 98

On November 8, 1988, the voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed State funding of public education below the university level and the operation of the State Appropriations Limit, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Proposition 98 (as modified by Proposition 111, enacted on June 5, 1990) guarantees K-14 schools the greater of: (a) in general, a fixed percentage of General Fund revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which replaces Test 1 and Test 2 in any year the percentage growth in per capita General Fund revenues from the prior year plus one half of one percent is less than the percentage growth in State per capita personal income ("Test 3"). Under Test 3, schools receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 becomes a "credit" (called the "maintenance factor") to schools and the basis of payments in future years when per capita General Fund revenue growth exceeds per capita personal income growth. Proposition 98 implementing legislation adopted prior to the end of the 1988-89 fiscal year determined the K-14 schools' funding guarantee under Test 1 to be 40.3 percent of the General Fund tax revenues, based on 1986-87 appropriations. However, this funding guarantee has been adjusted to approximately 39 percent of 1986-87 appropriations to account for subsequent changes in the allocation of local property taxes, since these changes altered the share of General Fund revenues received by schools. Proposition 98 also contains provisions for the transfer of certain State tax revenues in excess of the Article XIII B limit to K-14 schools in Test 1 years when additional moneys are available. No such transfers are anticipated during fiscal year 2004-05. See "STATE FINANCES—State Appropriations Limit."

The Proposition 98 guarantee is funded from two sources: local property taxes and the General Fund. Any amount not funded by local property taxes is funded by the General Fund. Thus, local property tax collections represent an offset to General Fund costs in a Test 2 or Test 3 year.

The 2004 Budget Act reflects General Fund Proposition 98 expenditures in fiscal years 2002-03 through 2004-05 as outlined in the table below. This represents Proposition 98 K-12 spending per pupil of 6.2 percent above the fiscal year 2002-03 level in both fiscal years 2003-04 and 2004-05. The 2004 Budget Act includes full funding for statutory growth and COLA adjustments, and also reflects the deferral of Proposition 98 expenditures of $2.158 billion from fiscal year 2002-03 to fiscal year 2003-04, $1.297 billion from fiscal year 2003-04 to fiscal year 2004-05 and $1.283 billion from fiscal year 2004-05 to fiscal year 2005-06. Appropriations for fiscal year 2003—04 include $188 million implementing the settlement agreement in the *Williams* litigation. The 2004 Budget Act assumes that any funding for the settlement of the *Williams* litigation for fiscal year 2004—05 will be accommodated within the existing Proposition 98 guarantee. See "LITIGATION—Actions Seeking Program Modifications." Estimates for fiscal year 2004-05 Proposition 98 funding assume voter approval of Senate Constitutional Amendment No. 4 in the November 2004 election. See "STATE FINANCES—Local Governments."

TABLE 7
Proposition 98 Funding
(Dollars in millions)

	2002-03		2003-04		2004-05	Change From Revised 2003-04	
	Enacted	**Revised**	**Enacted**	**Revised**	**Enacted[b]**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$28,647	$26,156	$27,630	$28,044	$30,873	$2,829	10.1%
Local property tax revenue	12,912	12,812	13,625	13,666	11,214	(2,452)	(17.9)
Subtotals[a]	$41,559	$38,968	$41,255	$41,710	$42,087	$ 377	0.90%
Other Proposition 98							
State General Fund	$2,913	$2,736	$2,353	$2,368	$3,130	$762	32.2%
Local property tax revenue	2,008	1,991	2,105	2,123	1,772	(351)	(16.5)
Subtotals[a]	$4,921	$4,727	$4,458	$4,491	$4,902	$411	9.25%
Total Proposition 98							
State General Fund	$31,560	$28,892	$29,983	$30,412	$34,003	$3,591	11.8%
Local property tax revenue	14,920	14,803	15,730	15,789	12,986	(2,803)	(17.8)
Totals[a]	$46,480	$43,695	$45,713	$46,201	$46,989	$788	1.7%

(a) Totals may not add due to rounding.
(b) Assumes voter approval of Senate Constitutional Amendment No. 4. See "STATE FINANCES—Local Governments."

Source: State of California, Department of Finance

Proposition 98 permits the Legislature, by a two-thirds vote of both houses (on a bill separate from the Budget Act), and with the Governor's concurrence, to suspend the K-14 schools' minimum funding guarantee for a one-year period. Restoration of the Proposition 98 funding level to the level that would have been required in the absence of such a suspension occurs over future fiscal years according to a specified State Constitutional formula.

Legislation related to the 2004 Budget Act suspends the Proposition 98 minimum guarantee by $2.004 billion. This amount is added to the existing maintenance factor (defined above), for a total estimated maintenance factor of $3.625 billion at the end of fiscal year 2004-05. This cumulative maintenance factor is required to be restored to the Proposition 98 budget in future years as explained above. Assuming a continued moderate economic growth scenario, the Administration projects that $1.6 billion of the total maintenance factor could be restored in the next three to five fiscal years. The remaining $2 billion maintenance factor would be restored over another three to five fiscal years. Therefore, rebasing the minimum funding guarantee provides ongoing General Fund savings over several fiscal years until the maintenance factor is fully repaid.

Appropriations for fiscal years 2002-03, 2003-04 and 2004-05 are currently estimated to be \$486.7 million, \$481.1 million and \$301.6 million, respectively, below the amounts required by Proposition 98 because of increases in State tax revenues above previous estimates. The fiscal year 2004—05 amount is reflected in General Fund balances as a reserve for Proposition 98. As the factors used to determine this amount for fiscal year 2004—05 are not yet fixed, this amount may change and will be re-estimated in the fiscal year 2005—06 Governor's Budget and May Revision. The Administration also may propose additional appropriations to meet this obligation during the 2004—05 fiscal year. Legislation enacted in August 2004 will annually appropriate \$150 million per year, beginning in fiscal year 2006-07, to repay any prior year Proposition 98 obligations, including \$250.8 million owed from the 1995-96 and 1996-97 fiscal years, until these obligations are fully repaid.

Local Governments

The primary units of local government in California are the counties, which range in population from 1,200 in Alpine County to approximately 10 million in Los Angeles County. Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also 478 incorporated cities and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments has been constrained since Proposition 13, which added Article XIII A to the State Constitution ("Proposition 13"), was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Proposition 218, another initiative constitutional amendment enacted in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. Counties, in particular, have had fewer options to raise revenues than many other local government entities, while they have been required to maintain many services.

In the aftermath of Proposition 13, the State provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature eliminated most of the remaining components of post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties. See "STATE FINANCES—Sources of Tax Revenue—Sales Tax" for a discussion of the impact of the economic recovery bond issuances on local sales taxes.

The 2004 Budget Act and related legislation will dramatically change the State-local fiscal relationship. By agreement between the State and local governments officials, the VLF (defined below) will be reduced from 2 percent to 0.65 percent of the value of the vehicle. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change will be replaced by an increase in the amount of property tax they receive.

Under the proposed agreement, for fiscal years 2004-05 and 2005-06 only, the replacement property taxes that cities and counties receive would be reduced by \$700 million. In future years, local governments would receive the full value of the VLF revenue that they would have received under current law. Also for these two fiscal years, the proposed agreement would require redevelopment agencies to shift \$250 million in property tax revenue they would otherwise receive to schools, and special districts would shift \$350 million to schools. As part of the agreement, Senate Constitutional Amendment No. 4 has been enacted by the Legislature and placed on the November 2004 ballot for approval by the electorate. If approved by the voters, Senate Constitutional Amendment No. 4 would protect local governments' property, sales, and vehicle license fee revenues in future years. In a fiscal emergency, the

State could borrow up to eight percent of local property tax revenues, provided a number of conditions are met, and the amount borrowed would have to be paid back within three years. The State would be unable to restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Senate Constitutional Amendment No. 4 would also protect local governments by prohibiting the State from mandating activities on local governments, but deferring payment for these costs. If the State does not provide funding for the activity, the requirement on local governments would be suspended. In addition, the definition of what constitutes a mandate on local governments would be broadened to better reflect when added costs are imposed on local governments. See "THE BUDGET PROCESS—Constraints on the Budget Process—Additional Constraints on the Budget Process."

Proposition 65, an initiative measure that also seeks to protect revenues for local governments, has qualified for the November 2004 ballot. Local officials have indicated they will drop all campaign efforts for this measure, and will campaign for the State-local initiative. Senate Constitutional Amendment No. 4 provides that if Senate Constitutional Amendment No. 4 and Proposition 65 are both approved by the voters and Senate Constitutional Amendment No. 4 receives more affirmative votes, none of the provisions of Proposition 65 would take effect. Conversely, if Proposition 65 receives more votes than Senate Constitutional Amendment No. 4, the statutory portions of the State-local agreement, which are contained in Chapter 211, Statutes of 2004, will be suspended. See "THE BUDGET PROCESS—Constraints on the Budget Process—Additional Constraints on the Budget Process."

In fiscal year 2004-05, funding is provided for various programs, including the Citizens' Option for Public Safety program to support local front-line law enforcement ($100 million), county juvenile justice and crime prevention programs ($100 million), reimbursement of jail booking fees ($38.2 million), grants to county assessors to increase and enhance property tax assessment activities ($60 million), and open space subvention reimbursements to cities and counties ($39 million). In addition, $18.5 million will be provided to 37 specified small and rural county sheriff departments. In subsequent years, the booking fee reimbursement will be eliminated and the fees will be reduced by 50 percent.

Vehicle License Fee

Vehicle license fees are assessed in the amount of two percent of a vehicle's depreciated market value for the privilege of operating a vehicle on California's public highways. A program to offset (or reduce) a portion of the vehicle license fees ("VLF") paid by vehicle owners was established by Chapter 322, Statutes of 1998. Beginning January 1, 1999, a permanent offset of 25 percent of the VLF paid by vehicle owners became operative. Various pieces of legislation increased the amount of the offset in subsequent years to the existing statutory level of 67.5 percent of two percent (resulting in the current effective rate of 0.65 percent). This level of offset was estimated to provide tax relief of $3.95 billion in fiscal year 2003-04. Beginning in fiscal year 2004-05, the state-local agreement will permanently reduce the VLF rate to 0.65 percent and eliminate the General Fund offset program.

In connection with the offset of the VLF, the Legislature authorized appropriations from the State General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be disadvantaged. In June 2003, the Director of Finance under the Davis Administration ordered the suspension of VLF offsets due to a determination that insufficient General Fund moneys would be available for this purpose, and, beginning in October 2003, VLF paid by vehicle owners were restored to the 1998 level. However, the offset suspension was rescinded by Governor Schwarzenegger on November 17, 2003, and offset payments to local governments resumed. Local governments received "backfill" payments totaling $3.80 billion in fiscal year 2002-03. "Backfill" payments totaling $2.65 billion were expected to be paid to local governments in fiscal year 2003-04. The State-local agreement also provides for the repayment in August 2006 of approximately $1.2 billion that was not received by local governments during the time period between the suspension of the offsets and the implementation of higher fees. This repayment obligation is codified by Senate Constitutional Amendment No. 4, which is subject to the approval of the voters in the November 2004 election. See "LITIGATION—Challenges Related to the Vehicle License Fee Offset and Related Payments to Local Governments."

In an unpublished decision issued in September 2003, the Court of Appeal (*County of San Diego v. Commission on State Mandates et al.*, D039471; petition for review denied by the California Supreme Court, in December, 2003) ruled in favor of the County of San Diego on certain claims related to the medically indigent adult ("MIA") program, and determined that the State owed the County of San Diego approximately $3.5 million for medical services rendered to MIAs during the two-year period (1991-1992). See "LITIGATION—Local Government Mandate Claims and Actions." The decision triggered the automatic reduction in VLF payments to local governments, by making the statutory depreciation schedule, enacted as part of the 1991 program realignment between State and local governments, inoperative as of March 1, 2004. In response to this reduction, the Department of Motor Vehicles ("DMV") adopted emergency regulations to offset this reduction in revenues. Subsequently, legislation was approved to reinstate the authority to transfer VLF revenues to the counties. The reinstatement will be made permanent by Senate Constitutional Amendment No. 4, if approved by the voters.

Trial Courts

Prior to legislation enacted in 1997, local governments provided the majority of funding for the State's trial court system. The legislation consolidated the trial court funding at the State level in order to streamline the operation of the courts, provide a dedicated revenue source, and relieve fiscal pressure on the counties. This resulted in decreasing the county contribution for court operations by $415 million and allowed cities to retain $68 million in fine and penalty revenue previously remitted to the State. The State's trial court system will receive approximately $1.8 billion and $1.7 billion in State resources in fiscal years 2003-04 and 2004-05, respectively, and $475 million in resources from the counties in each fiscal year.

Welfare System

The entire statewide welfare system was changed in response to the change in federal welfare law enacted in 1996 (see "Welfare Reform"). Under the CalWORKs (defined below) program, counties are given flexibility to develop their own plans, consistent with State law, to implement the program and to administer many of its elements, with costs for administrative and supportive services capped at the 1996-97 levels. As noted above, counties are also given financial incentives if, at the individual county level or statewide, the CalWORKs program produces savings associated with specified standards. Counties are still required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

Welfare Reform

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104–193, the "Law") fundamentally reformed the nation's welfare system. The Law included provisions to: (i) convert Aid to Families with Dependent Children ("AFDC"), an entitlement program, to Temporary Assistance for Needy Families ("TANF"), a block grant program with lifetime time limits on TANF recipients, work requirements and other changes; (ii) deny certain federal welfare and public benefits to legal noncitizens (subsequent federal law has amended this provision), allow states to elect to deny additional benefits (including TANF) to legal noncitizens, and generally deny almost all benefits to illegal immigrants; and (iii) make changes in the Food Stamp program, including to reduce maximum benefits and impose work requirements. The block grant formula under the Law is operative through September 30, 2004.

Chapter 270, Statutes of 1997, embodies California's response to the federal welfare reforms. Effective January 1, 1998, California Work Opportunity and Responsibility to Kids ("CalWORKs") replaced the former AFDC and Greater Avenues to Independence programs. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid, both lifetime as well as current period. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

Caseload under CalWORKs is continuing to flatten after many consecutive years of decline. The revised CalWORKs caseload projections are 474,000 cases in fiscal year 2003-04 and 473,000 cases in fiscal year 2004-05. This represents a major decline in caseload from the rapid growth of the early 1990s, when caseload peaked at 921,000 cases in fiscal year 1994-95. Since CalWORKs' inception in January 1998, caseload has declined by nearly 35 percent, and the number of working recipients has increased from less than 20 percent in 1996 to nearly 50 percent in 2002.

California will continue to meet, but not exceed, the federally-required $2.7 billion combined State and county maintenance of effort ("MOE") requirement in fiscal years 2003-04 and 2004-05. In an effort to keep program expenditures within the TANF Block Grant and TANF MOE amounts, the 2004 Budget Act eliminates TANF funding for county juvenile probation services, decreases State funding for tribal TANF programs and delays the 2004-05 CalWORKs cost-of-living adjustment for three months.

The 2004 Budget Act includes an augmentation of $191.9 million in fiscal year 2003-04 and $241.9 million in fiscal year 2004-05 for employment services to enable recipients to move off of aid and into sustainable employment. The 2004 Budget Act includes total CalWORKs-related expenditures of $6.9 billion for fiscal year 2003-04 and $6.7 billion for fiscal year 2004-05, including child care transfer amounts for the Department of Education and the State's general TANF reserve. The 2004 Budget Act includes a TANF reserve of $171.1 million, which is available for unanticipated needs in any program for which TANF Block Grant funds are appropriated, including CalWORKs benefits, employment services, county administration, and child care costs. This reserve may be needed for such pressures as litigation or the cost of increased participation rate requirements that have been proposed at the federal level with the reauthorization of the TANF program.

Authorization for the TANF program currently ends September 30, 2004 (having been extended several times from its original September 30, 2002 expiration date). For the TANF program to continue, the U.S. Congress must pass, and the President must sign, legislation reauthorizing the program prior to that date. While Congress and the President will consider several key policy changes, federal reauthorization legislation introduced to date would significantly increase the work participation rate requirements. One proposal would increase work participation rate requirements by 5 percent annually from the current statutory rate of 50 percent to 70 percent in federal fiscal year 2008. The State would need to make substantial investments in child care and employment services in order to meet the increased work participation rate requirements if this proposal was adopted. Failure to meet these increased requirements could result in significant federal penalties.

Pension Trusts

The assets and liabilities of the three principal retirement systems in which the State participates, CalPERS, the California State Teachers' Retirement System ("CalSTRS") and the University of

California Retirement System ("UCRS"), are included in the financial statements of the State as fiduciary funds and described in Note 20 to the Audited Annual Financial Statements of the State of California for the year ended June 30, 2003 (the "Audited Financial Statements"), incorporated by reference in or attached to this APPENDIX A. See "FINANCIAL STATEMENTS."

The three largest defined benefit retirement plans contained in the retirement systems and the excess of the actuarial value of assets over the actuarial accrued liability or unfunded actuarial accrued liability of those plans at June 30, 2003 was reported to be as follows:

TABLE 8
ACTUARIAL VALUE OF STATE RETIREMENT SYSTEMS

Name of Plan	Excess of Actuarial Value of Assets Over Actuarial Accrued Liabilities (Unfunded Actuarial Accrued Liability)
Public Employees' Retirement Fund (CalPERS)[1]	$ (11.935) billion
State Teachers' Retirement Fund Defined Benefit Program (CalSTRS)	(23.110) billion
University of California Retirement Plan	8.474 billion

(1) Excludes the value of the local government plans of the system.

According to CalSTRS, its investment portfolio market value as of July 31, 2004, was approximately $116,177,000,000, compared to $100,893,000,000 as of July 31, 2003. The CalPERS reports that its investment portfolio market value as of July 31, 2003, was approximately $144,800,000,000, compared to $143,400,000,000 as of July 31, 2002. Updated portfolio market value figures for CalPERS will not be available until late fall of 2004.

The State's contribution to the CalPERS and the UC Retirement System is actuarially determined each year, while the State's contribution to the CalSTRS Defined Benefit Program is established by statute. This is currently 2.017 percent of teacher payroll for the fiscal year ending in the immediately preceding calendar year. The State must also contribute 2.5 percent of teacher payroll to the Supplemental Benefits Maintenance Account, which is a purchasing power protection reserve. CalSTRS has recently announced that due to an unfunded liability associated with the 1990 benefit structure, the State will be required to pay an additional 0.524 percent ($94 million from the General Fund); however the State is still evaluating the validity of this assertion. The following table shows the State's contributions to CalPERS for fiscal years 1997-98 through 2003-04 and its estimated contribution for 2004-05:

TABLE 9
STATE CONTRIBUTION TO CALPERS
Fiscal Years 1997-98 to 2004-05

1997—98	$1,223,000,000
1998—99	766,100,000
1999—00	463,600,000
2000—01	156,700,000
2001—02	677,200,000
2002—03	1,190,000,000
2003—04	2,213,000,000
2004—05	2,547,000,000(1)

(1) Estimated

Due to past investment losses and increased retirement benefits, the State contribution to CalPERS has increased from $156.7 million in fiscal year 2000-01 to an estimated $2.547 billion in fiscal year 2004-05.

The 2004 Budget Act includes a pension reform package to reduce the State's future costs of pension contributions. The pension reform would require that all new miscellaneous and industrial employees contribute 5 percent of their salaries into a 401(a) account for their first two years of service to the State. The State would not contribute to CalPERS on behalf of those employees for the first two years. At the completion of the two years, the employees would automatically begin paying into CalPERS instead of the 401(a) account and the State would begin making normal contributions on the employees' behalf. At the end of forty-eight months, the new employees will be given a choice of withdrawing their accumulated 5 percent contributions, rolling their contributions into a deferred compensation program, or purchasing their accrued service with CalPERS. The 2004 Budget Act also assumes the issuance of $929 million of pension obligation bonds to cover a portion of the State's retirement obligations for fiscal year 2004-05. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Pension Obligation Bonds." Details concerning the three largest plans and information concerning the other plans contained in the retirement systems are included in Note 20 to the Audited Financial Statements. See "FINANCIAL STATEMENTS."

Repayment of Energy Loans

The Department of Water Resources of the State ("DWR") borrowed $6.1 billion from the General Fund of the State for DWR's power supply program between January and June 2001. DWR issued approximately $11.25 billion in revenue bonds in several series and in the fall of 2002 used the net proceeds of the revenue bonds to repay outstanding loans from banks and commercial lenders in the amount of approximately $3.5 billion and a loan from the General Fund in the amount of $6.1 billion plus accrued interest of approximately $500 million.

The cost of the loans from the General Fund and the banks and commercial lenders that financed DWR's power supply program costs during 2001 exceeded DWR's revenues from the sale of electricity. Since that time, the power supply program has become self-supporting, and no additional loans from the General Fund are authorized. As of January 1, 2003, the DWR's authority to enter into new power purchase contracts terminated, and the three major investor-owned electric utilities (the "IOUs") resumed responsibility for obtaining electricity for their customers.

The general purpose of the power supply program has been to provide to customers of the IOUs the portion of their power not provided by the IOUs. The primary source of money to pay debt service on the DWR revenue bonds is revenues derived from customers of the IOUs resulting from charges set by the California Public Utilities Commission. The DWR revenue bonds are not a debt or liability of the State and do not directly or indirectly or contingently obligate the State to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

Unemployment Insurance Fund

In fiscal year 2002-03 the State paid $8.161 billion in unemployment benefits from the Unemployment Insurance ("UI") Fund. In fiscal year 2003-04 the State estimates it paid $7.811 billion in benefits from the UI Fund. The UI Fund (which is not part of the General Fund) is projected to have a $220 million deficit in calendar year 2004, notwithstanding the automatic unemployment insurance tax rate increase that took effect January 1, 2004. The Employment Development Department ("EDD") has received approval for a loan from the federal government of up to $1.2 billion to provide cash flow relief so that unemployment benefits can continue to be paid. The federal loan will be repaid from increased UI tax revenue. Interest payments on the loan, if incurred, will be paid by the EDD Contingent Fund and not the General Fund. The Administration and the Legislature will have to determine how to resolve the cash flow imbalance in the UI Fund for the long-term. This issue is expected to be addressed by the Legislature in the future.

Investment of Funds

Moneys on deposit in the State's Centralized Treasury System are invested by the Treasurer in the Pooled Money Investment Account ("PMIA"). As of July 31, 2004, the PMIA held approximately $30.6 billion of State moneys, and $21.2 billion invested for about 2,734 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of July 31, 2004, are shown in the following table:

TABLE 10
Analysis of the Pooled Money Investment Account Portfolio*

Type of Security	Amount (Thousands)	Percent of Total
U.S. Treasury	$ 6,895,836	13.3%
Commercial Paper	6,941,572	13.4
Certificates of Deposits	9,050,044	17.5
Corporate Bonds	1,451,296	2.8
Federal Agency	16,207,861	31.3
Bankers Acceptances	–	0.0
Bank Notes	600,000	1.2
Loans Per Government Code	4,771,189	9.2
Time Deposits	5,879,795	11.4
Repurchases	–	0.0
Reverse Repurchases	–	0.0
	$51,797,593	100.0%

* Totals may differ due to rounding.

Source: State of California, Office of the Treasurer.

The State's treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash flow date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of July 31, 2004 was 201 days.

THE BUDGET PROCESS

General

The State's fiscal year begins on July 1 and ends on June 30 of the following year. The State's General Fund Budget operates on a legal basis, generally using a modified accrual system of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") and as described below, beginning with fiscal year 2004-05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and fund balances at the time of the passage and as set forth in the budget bill.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure appropriations is the annual Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. See "THE BUDGET PROCESS—Constraints on the Budget Process" below. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Except as noted in the previous paragraph and in the next sentence, bills containing General Fund appropriations must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing appropriations for K-12 schools or community colleges ("K-14 education") only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Constraints on the Budget Process

Proposition 58 (Balanced Budget Amendment)

Proposition 58 requires the State to enact a balanced budget, establish a special reserve in the General Fund and restricts future borrowing to cover budget deficits. As a result of the provisions requiring the enactment of a balanced budget and restricting borrowing, the State would, in some cases, have to take more immediate actions to correct budgetary shortfalls. Beginning with the budget for fiscal year 2004-05, Proposition 58 requires the Legislature to pass a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance. The balanced budget determination is made by subtracting expenditures from all available resources, including prior-year balances.

If the Governor determines that the State is facing substantial revenue shortfalls or spending deficiencies, the Governor is authorized to declare a fiscal emergency. He or she would then be required to propose legislation to address the emergency, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the Governor legislation to address the budget fiscal emergency within 45 days, the Legislature would be prohibited from (i) acting on any other bills or (ii) adjourning in joint recess until such legislation is passed.

Proposition 58 also requires that a special reserve (the Budget Stabilization Account) be established in the State's General Fund. Beginning with fiscal year 2006-07, a specified portion of estimated annual General Fund revenues would be transferred by the Controller into the Budget Stabilization Account no later than September 30 of each fiscal year. These transfers would continue until the balance in the Budget Stabilization Account reaches $8 billion or 5 percent of the estimated General Fund revenues for that fiscal year, whichever is greater. The annual transfer requirement would be in effect whenever the balance falls below the $8 billion or 5 percent target. The annual transfers could be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year.

Proposition 58 will also prohibit certain future borrowing to cover budget deficits. This restriction applies to general obligation bonds, revenue bonds, and certain other forms of long-term borrowing. The restriction does not apply to certain other types of borrowing, such as (i) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the State), or (ii) inter-fund borrowings.

Additional Constraints on the Budget Process

Over the years, a number of laws and constitutional amendments have been enacted, often from voter initiatives, which have made it more difficult to raise State taxes, have restricted the use of State General Fund or special fund revenues, or have otherwise limited the Legislature and Governor's discretion in enacting budgets. Proposition 58 is the most recent example. Prior examples of provisions that make it more difficult to raise taxes include Proposition 13, which, among other provisions, required that any change in State taxes enacted for the purpose of increasing revenues collected pursuant thereto, whether by increased rates or changes in computation, be enacted by a two-thirds vote in each house of the Legislature. Prior examples of provisions restricting the use of General Fund revenue are Proposition 98, which mandates a minimum percentage of General Fund revenues to be spent on local education, and Proposition 10, which raised taxes on tobacco products but mandated how the additional revenues would be expended. See "STATE FINANCES—Proposition 98" and "—Sources of Tax Revenue—Taxes on Tobacco Products."

An initiative statute, Proposition 49, called the "After School Education and Safety Program of 2002," was approved by the voters on November 5, 2002, and will require the State to expand funding for before and after school programs in the State's public elementary and middle schools. In the first year after fiscal year 2003-04 that non-Proposition 98 General Fund appropriations exceed the base year level by $1.5 billion, the initiative will require the State to appropriate up to $550 million annually, depending on the amount of appropriations above the trigger level. The initiative defines the base year level as the fiscal year during the period July 1, 2000, through June 30, 2004, for which the State's non-Proposition 98 General Fund appropriations are the highest as compared to any other fiscal year during that period. Using data from July 2004, the 2000-01 fiscal year is the base year. Based upon expected non-Proposition 98 General Fund appropriations as of July 2004, the initiative is unlikely to require implementation of the funding increase for before and after school programs until fiscal year 2008-09. The 2004 Budget Act includes approximately $121.6 million for these after school programs in fiscal year 2004-05, $428.4 million below the amount which the initiative would require if the full funding increase were triggered.

As described under "STATE FINANCES – Local Governments" above, as part of an agreement between the State and local government officials, Senate Constitutional Amendment No. 4 has been approved by the Legislature and placed on the November 2004 ballot for approval by the electorate. If approved by the voters, Senate Constitutional Amendment No. 4 would protect local governments' property and sales tax and vehicle license fee revenues in future years. This measure would require the approval of two-thirds of both houses of the Legislature before any changes can be made to the allocation of property tax revenues among local governments. In a fiscal emergency, the State could borrow up to eight percent of local property tax revenues, provided a number of conditions are met, and the amount borrowed would have to be paid back within three years. This measure also would prohibit the State from reducing local sales tax rates, restricting the authority of local governments to levy a sales tax rate, or changing the distribution of the statewide local sales tax. Senate Constitutional Amendment No. 4, if approved by the voters, would also protect local governments by prohibiting the State from mandating activities on local governments, but deferring payment for these costs. If the State does not provide funding for the activity, the requirement on local governments would be suspended. In addition, the definition of what constitutes a mandate on local governments would be broadened to better reflect when added costs are imposed on local governments.

Proposition 65, an initiative measure that also seeks to protect revenues for local governments, has qualified for the November 2004 ballot. Local officials have indicated they will drop all campaign efforts for this measure, and will campaign for the State-local initiative. Senate Constitutional Amendment No. 4 provides that if Senate Constitutional Amendment No. 4 and Proposition 65 are both approved by the voters and Senate Constitutional Amendment No. 4 receives more affirmative votes, none of the provisions of Proposition 65 would take effect. Conversely, if Proposition 65 receives more votes than Senate Constitutional Amendment No. 4, the statutory portions of the State-local agreement, which are contained in Chapter 211, Statutes of 2004, will be suspended.

PRIOR FISCAL YEARS' BUDGETS

Following a severe recession in the early 1990s, the State's financial condition improved markedly starting in 1995-96, due to a combination of better than expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on actions taken in earlier years. The economy grew strongly between 1994 and 2000, generally outpacing the nation, and as a result, for the five fiscal years from 1995-96 to 1999-00, the General Fund tax revenues exceeded the estimates made at the time the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid in 1995-96 and 1996-97 and to fund new program initiatives, including education spending above Proposition 98 minimums, tax reductions, aid to local governments and infrastructure expenditures.

2001 Budget Act

The 2001 Budget Act (for fiscal year 2001-02) was signed by Governor Davis on July 26, 2001. The spending plan for fiscal year 2001-02 included General Fund expenditures of $78.8 billion, a reduction of $1.3 billion from the prior year. The spending plan utilized more than half of the budget surplus as of June 30, 2001, but still left a projected balance in the SFEU at June 30, 2002, of $2.6 billion. The 2001 Budget Act assumed that, during the course of the fiscal year, the $6.2 billion advanced by the General Fund to the DWR for power purchases would be repaid with interest. See "STATE FINANCES—Repayment of Energy Loans."

The final estimate of fiscal year 2001-02 revenues and expenditures showed an unprecedented drop in revenues compared to the prior year. The final estimate for the three largest tax sources was $59.7 billion, a drop of over $13 billion from fiscal year 2000-01, the vast bulk of which was attributable to reduced personal income taxes from stock option and capital gains activity. This revenue shortfall and the delay of the DWR power revenue bonds past June 30, 2002, resulted in a substantial budgetary deficit and cash flow difficulties. Despite a mid-year spending freeze for many State agencies and spending reductions and deferrals totaling $2.3 billion for the 2001-02 fiscal year in January 2002, the State ended fiscal year 2001-02 with a $2.1 billion negative fund balance.

2002 Budget Act

The 2002-03 Governor's Budget, released on January 10, 2002 (the "2002-03 Governor's Budget") projected a combined budget gap for fiscal years 2001-02 and 2002-03 of approximately $12.5 billion due, in part, to a decline in General Fund revenues attributable to the national economic recession combined with the stock market decline. Personal income tax receipts, which include stock option and capital gains realizations, were particularly affected by the slowing economy and stock market decline. The May Revision to the 2002-03 Governor's Budget projected further deterioration in revenues and additional costs, increasing the two year budget gap to $23.6 billion.

The 2002 Budget Act was signed by Governor Davis on September 5, 2002. The 2002 Budget Act addressed the $23.6 billion gap between expenditures and resources through a combination of program reductions, interfund borrowings, fund shifts, payment deferrals, accelerations and transfers, debt service restructuring savings and modest tax changes.

Within a few months after the 2002 Budget Act was adopted, it became evident that revenue projections incorporated in the 2002 Budget Act were substantially overstated and that certain program cost savings included in the 2002 Budget Act would not be realized.

In late November 2002, Governor Davis directed State agencies to take immediate action to reduce any non-critical or non-essential activities by not filling any vacant positions; to cancel, postpone or amend contracts, grants, purchase orders and similar commitments; to eliminate additional non-essential vacant positions; to delay construction or signing of new leases for space; to cancel or postpone non-essential trips; and to generate new proposals for current year program reductions. In the spring of 2003, the Legislature passed budget adjustment legislation, totaling about $10.4 billion in spending reductions, deferrals and funding transfers ($5.1 billion for fiscal year 2002-03 and $5.3 billion for fiscal year 2003-04). The largest part of the reductions (including a $1.1 billion deferral into the 2003-04 fiscal year) were for K-12 education funding.

2003 Budget Act

The 2003-04 Governor's Budget, released on January 10, 2003 (the "2003-04 Governor's Budget"), projected a significant downward revision in State revenues. The 2003-04 Governor's Budget projected revenues from the three largest tax sources to be about $61.7 billion in fiscal year 2002-03, more than $6 billion lower than projected in the 2002 Budget Act. The 2003-04 Governor's Budget projected total revenues and transfers of $73.1 billion and $69.2 billion in fiscal years 2002-03 and 2003-04 respectively. The 2003-04 Governor's Budget projected a $34.6 billion cumulative budget shortfall through June 30, 2004.

The May Revision to the 2003-04 Governor's Budget (the "May Revision") reduced the revenue estimate for fiscal year 2002-03 to $70.8 billion from the 2003-04 Governor's Budget estimate of $73.1 billion, primarily from the loss of $2 billion of revenues due to the delay of the second sale of tobacco securitization bonds. The May Revision estimated that the cumulative budget shortfall for fiscal years 2002-03 and 2003-04 had increased from $34.6 billion to $38.2 billion.

The 2003 Budget Act was adopted by the Legislature on July 29, 2003, along with a number of implementing measures, and signed by Governor Davis on August 2, 2003. Under the 2003 Budget Act, General Fund revenues were projected to increase 3.3 percent, from $70.9 billion in fiscal year 2002-03 to $73.3 billion in fiscal year 2003-04. The revenue projections incorporated a 4 percent increase in State tax revenues (as projected by the LAO's office in August of 2003).

The June 30, 2004 reserve was projected in the 2003 Budget Act to be just over $2 billion. This projection reflected the elimination of the $10.675 billion accumulated deficit through June 30, 2003 (as estimated in the 2003 Budget Act), through the issuance of the economic recovery bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds."

The 2004-05 Governor's Budget's projection for fiscal year 2003-04, released on January 9, 2004, projected $1.274 billion of additional revenues, $3.879 billion of additional expenditures and $205 million additional prior year adjustments as compared to the 2003 Budget Act. After accounting for a $473 million reduction in other reserves, the June 30, 2004 General Fund reserve was projected to be $290 million, down approximately $1.9 billion from the 2003 Budget Act. The 2004-05 Governor's Budget assumed the implementation of certain mid-year spending reductions.

On May 13, 2004, the Governor released the May Revision to the 2004-05 Governor's Budget, which provided updated revenue and economic forecasts and revised budget proposals. The May Revision projected a $1.88 billion reserve as of June 30, 2004, representing a $1.597 billion increase compared to the 2004-05 Governor's Budget.

The 2004 Budget Act estimated a $2.198 billion reserve as of June 30, 2004, $290 million higher than projected in the May Revision.

CURRENT STATE BUDGET

The discussion below of the fiscal year 2004-05 budget and the table under "Summary of State Revenues and Expenditures" are based on estimates and projections of revenues and expenditures for the current fiscal year and must not be construed as statements of fact. These estimates and projections are based upon various assumptions, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved. See "RECENT DEVELOPMENTS REGARDING STATE ECONOMY AND FINANCES" and "CURRENT STATE BUDGET—Revenue and Expenditure Assumptions."

Background

The 2004-05 Governor's Budget, released on January 9, 2004, reported that, in the absence of corrective actions to change existing policies, operating deficits, estimated at $14 billion for fiscal 2004-05, would continue to be incurred. The May Revision released on May 13, 2004, projected a June 30, 2005 General Fund reserve of $998 million, up $363 million from the 2004-05 Governor's Budget projections. The increase in the reserve was the result of a $2.229 billion increase in prior year adjustments, a $245 million increase in revenues (over both fiscal years 2003-04 and 2004-05), a $1 billion reduction in the sale of economic recovery bonds and a $1.112 billion increase in expenditures (over both fiscal years 2003-04 and 2004-05).

2004 Budget Act

After months of negotiations between the Governor and the Legislature, the 2004 Budget Act was adopted by the Legislature on July 29, 2004, along with a number of implementing measures, and signed by the Governor on July 31, 2004. In approving the budget, the Governor vetoed $116 million in appropriations (including $80 million in General Fund appropriations). The 2004 Budget Act largely reflects the proposals contained in the May Revision to the 2004-05 Budget, including the use of $2 billion of proceeds of the economic recovery bonds issued in fiscal year 2003-04 (see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS–Economic Recovery Bonds").

Under the 2004 Budget Act, General Fund revenues are projected to increase 3.6 percent, from $74.6 billion in fiscal year 2003-04 to $77.3 billion in fiscal year 2004-05. The revenue projections assume a continuing rebound in California's economy as reflected in several key indicators. See "CURRENT STATE BUDGET—Economic Assumptions." Excluding the impact of the economic recovery bonds, General Fund expenditures are estimated to increase by 6.7 percent, from $75.6 billion in fiscal year 2003-04 to $80.7 billion in fiscal year 2004-05. The June 30, 2005 reserve is projected to be $768 million, compared to an estimated June 30, 2004 reserve of $2.198 billion.

The 2004 Budget Act largely reflects the budget proposals contained in the May Revision (released on May 13, 2004) to the original 2004-05 Governor's Budget (the "May Revision") proposed on January 9, 2004. Revenue increases since the May Revision reflected in the 2004 Budget Act total $542 million. The majority of the change in revenues can be accounted for by a $315 million increase due to the Legislature's adoption of the Legislative Analyst's revenue estimates, and a $210 million increase from the suspension of the Teacher's Tax Credit. Resources also increased by an additional $341 million in prior year adjustments. In addition, expenditures increased by $1.1 billion since the May Revision. These changes resulted in a $230 million reduction to the reserve, compared to May Revision. The majority of the expenditure increase is due to the restoration of solutions in the Health and Human Services, Employee Compensation, County Probation, and Higher Education areas. In summary, the 2004 Budget Act addressed a projected $13.9 billion budget shortfall through expenditure cuts ($4.0 billion or 28.7 percent), cost avoidance ($4.4 billion or 31.7 percent), fund shifts ($1.6 billion or 11.2 percent), loans or borrowing ($2.1 billion or 15.4 percent), and transfers and other revenue ($1.8 billion or 13.0 percent).

The 2004 Budget Act contains the following major components:

1. Rebasing Proposition 98 Minimum Funding Guarantee—The level of Proposition 98 appropriations is to be reset at a level approximately $2 billion less than would otherwise be required for fiscal year 2004-05 pursuant to legislation relating to the 2004 Budget Act. See "STATE FINANCES—Proposition 98."

2. Higher Education—A new fee policy for higher education is implemented whereby future undergraduate and graduate level fee increases are tied to increases in per-capita personal income, with flexibility to increase fees by not more than an average of 10 percent a year over the next three years. Under the fee policy, graduate fees may increase at rates in excess of undergraduate fees until a 50 percent differential is achieved. In fiscal year 2004-05, fees are increased 14 percent for undergraduates and 20 percent for graduate students (25 percent for CSU graduate students majoring in non-teacher preparation programs). The new long-term policy is designed to ensure that public university students are protected from future dramatic fee increases as a consequence of declines in General Fund resources. The 2004 Budget Act includes $750 million in various spending reductions for higher education from otherwise mandated levels.

3. Health and Human Services—While the Administration has proposed major reforms of the Medi-Cal program, any such reforms are expected to take at least one year to implement. As a result, the 2004 Budget Act does not include any savings attributed to Medi-Cal redesign. Other strategies independent of the Medi-Cal redesign have been included in the 2004 Budget Act, such as the implementation of Medi-Cal rate increases for County Organized Health Systems and Pharmacy Reimbursement Realignment. In addition, increased work incentives under the CalWORKs program are proposed. The budget includes $992 million in reductions in various social service programs from otherwise mandated levels.

4. Pension Reform—The 2004 Budget Act eliminates State contributions to CalPERS on behalf of new State employees for the first two years of employment. In addition, the 2004 Budget Act assumes the issuance of $929 million pension obligation bonds to cover a portion of the State's required contributions to CalPERS in fiscal year 2004-05. Of this amount, $577 million is reflected as a revenue transfer and $352 million as savings. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Pension Obligation Bonds."

5. Substantially Reduced External Borrowings—As stated, the 2004 Budget Act assumes the issuance of $929 million in pension obligation bonds to pay a portion of the pension obligations in fiscal year 2004-05. In addition, approximately $2 billion of economic recovery bond proceeds will be deposited in the Deficit Recovery Fund and will be used to offset fiscal year 2004-05 General Fund expenditures. In contrast, in fiscal year 2003-04, aggregate borrowings to address current expenses and accumulated deficits are estimated at $11.5 billion, including $2.3 billion of tobacco securitization proceeds and $9.2 billion of economic recovery proceeds (representing approximately $11.254 billion of total bond proceeds, less $2 billion deposited into the Deficit Recovery Fund). See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds."

6. Tax Relief—The 2004 Budget Act reflects the elimination of the VLF offset program beginning in fiscal year 2004-05. See "STATE FINANCES—Local Governments."

7. Indian Gaming—The 2004 Budget Act includes $300 million in additional revenues as a result of the renegotiation of tribal gaming compacts and the negotiation of new compacts with tribes that wish to expand gaming activities. The 2004 Budget Act authorizes the State to sell the revenue stream to be received from payments made by certain Indian tribes to secure up to $1.5 billion of securities, the proceeds of which will be used by the State to repay prior transportation loans. Issuance of these securities is contingent upon the failure of Propositions 68 and 70, which relate to Indian gaming and have qualified for the November 2004 ballot.

8. Other Revenue Enhancements and Expenditure Reductions—The 2004 Budget Act includes: (i) $1.206 billion in savings for the suspension of the Transportation Investment Fund transfer; (ii) $450 million in savings from deposits of punitive damages awards used to offset General Fund costs

in fiscal year 2004-05; (iii) $206 million for spending reductions that would result from changes in the correctional system; and (iv) $150 million of additional savings pursuant to Control Section 4.10 of the 2004 Budget Act (which gives the Department of Finance the authority to reduce appropriations in certain circumstances).

Set forth below is a chart showing a General Fund Budget Summary for the budget year as originally projected by the 2004-05 Governor's Budget and May Revision and as revised by the 2004 Budget Act.

FIGURE 1
2004-05 General Fund Budget Summary
(Dollars in millions)

	As of 2004-05 Governor's Budget	As of 2004-05 May Revision	As of 2004 Budget Act
Prior Year Resources Available	$ 1,219	$ 2,816	$ 3,127
Revenues and Transfers	76,407	76,688	77,251
Expenditures	79,074	79,590	80,693
Use from Deficit Recovery Fund	(3,012)	(2,012)	(2,012)
Fund Balance	$1,564	$1,927	$1,697
Reserve for Liquidation of Encumbrances	$ 929	$ 929	$ 929
Special Fund for Economic Uncertainties	$ 635	$ 998	$ 768

"Structural Deficit"

In its May 17, 2004 "Overview of the 2004-05 May Revision," the Legislative Analyst's Office ("LAO") projected that a $6 billion operating shortfall would re-emerge in fiscal year 2005-06. Although the LAO expects that the shortfall could be substantially offset through accessing carryover reserves and using the remaining Proposition 57 authorization, the State budget would still be modestly out of balance. The LAO further projected that following fiscal year 2005-06, the State would again face major budget shortfalls, absent significant corrective actions. The LAO estimates that the fiscal year 2006-07 shortfall would approach $8 billion, and that annual operating deficits above $6.5 billion would persist for the forecast period (through fiscal year 2008-09). The LAO has not revised its May 17, 2004 forecast of revenues, expenditures and the State's potential structural deficit since the adoption of the 2004 Budget Act.

Although the Administration estimates that there will be an operating deficit in fiscal year 2005-06, the Administration will continue working with the Legislature to address any remaining operating deficit in fiscal year 2005-06. Savings, which cannot be determined at this time, are anticipated from various budget reform proposals, such as Medi-Cal and corrections, and from recommendations made by the California Performance Review that will be implemented. These savings will help reduce the operating deficit in fiscal year 2005-06.

California Performance Review

In the 2004-05 Governor's Budget, the Administration revealed a plan to conduct a fundamental review of State government that would focus on the following areas: executive branch reorganization, program performance assessment and budgeting, improved services and productivity, and acquisition reform. On August 3, 2004, the California Performance Review presented its report to the Governor. The report proposes more than 1,000 recommendations aimed at increasing the efficiency of government and restructuring state agencies and departments, as well as a variety of policy changes affecting a wide variety of state programs. While the 2004 Budget Act does not reflect any items directly attributable to the California Performance Review, it is expected that some recommendations made by the California Performance Review will be implemented and that the anticipated savings resulting from such changes will help reduce the operating deficit in fiscal year 2005-06.

Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2000-01, 2001-02, and 2002-03, estimated results for fiscal year 2003-04 and projected results (based upon the 2004 Budget Act) for fiscal year 2004-05.

TABLE 11
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE–GENERAL FUND
(Budgetary Basis)[a]
FISCAL YEARS 2000-01 THROUGH 2004-05
(Millions)

	2000-01	2001-02	2002-03	Estimated[b] 2003-04[c]	Estimated[b] 2004-05[c]
Fund Balance–Beginning of Period	$ 9,639.7	$ 9,017.5	$ (2,109.8)	$ (7,536.2)	$ 3,126.8
Restatements					
Economic Recovery Bonds[d]	–	–	–	9,242.0	–
Prior Year Revenue, Transfer Accrual Adjustments	(158.8)	(729.8)	154.4	2,452.2	–
Prior Year Expenditure, Accrual Adjustments	(229.9)	217.4	374.2	20.0	–
Fund Balance–Beginning of Period, as Restated	$ 9,251.0	$ 8,505.1	$ (1,581.2)	$ 4,178.0	$ 3,126.8
Revenues	$77,609.9	$ 64,060.3	$68,545.8	$73,899.3	$76,345.8
Other Financing Sources					
Economic Recovery Bonds[d]	–	–	–	2,012.0	–
Transfers from Other Funds	6,561.8[e]	2,143.3	3,289.5	671.1	905.1
Other Additions	46.3	33.9	143.9	–	–
Total Revenues and Other Sources	$84,218.0	$ 66,237.5	$71,979.2	$76,582.4	$77,250.9
Expenditures					
State Operations	$17,641.7	$ 19,085.7	$18,277.6	$17,074.0	$18,946.5
Local Assistance	58,441.4	57,142.0	59,145.3	58,153.1	62,143.0
Capital Outlay	2,044.3	323.5	141.3	394.5	53.5
Unclassified	–	–	–	2,012.0[f]	(2,462.0)[g]
Other Uses					
Transfer to Other Funds	6,324.1[e]	301.2	370.0	–[h]	–[h]
Total Expenditures and Other Uses	$84,451.5	$ 76,852.4	$ 77,934.2	$77,633.6	$ 78,681.0
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$ (233.5)	$(10,614.9)	$ (5,955.0)	$ (1,051.2)	$ (1,430.1)
Fund Balance					
Reserved for Encumbrances	$ 1,834.3	$ 1,491.5	$ 1,037.4	$ 928.7	$ 928.7
Reserved for Unencumbered Balances of Continuing Appropriations[i]	1,436.7	827.3	996.9	471.3	155.9
Reserved for School Loans[j]	349.7	–	–	–	–
Unreserved–Undesignated [k]	5,396.8	(4,428.6)	(9,570.5)	1,726.8	612.1
Fund Balance–End of Period	$ 9,017.5	$ (2,109.8)	$ (7,536.2)	$ 3,126.8	$ 1,696.7

Footnotes on following page.

Source: Fiscal years 2000-01 to 2002-03: State of California, Office of the State Controller.
Fiscal years 2003-04 and 2004-05: State of California, Department of Finance.

(a) These statements have been prepared on a budgetary basis in accordance with State law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the State's Audited Annual Financial Statements for the year ended June 30, 2003, incorporated by reference in this APPENDIX A, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2002 fund balance between the two methods.

(b) Estimates are shown net of reimbursements and abatements.

(c) Estimated as of the 2004 Budget Act, July 31, 2004.

(d) Reflects the issuance of economic recovery bonds sufficient to provide net proceeds to the General Fund of \$11.254 billion in 2003-04 to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds." The Department of Finance treats \$9.242 billion of this amount as received for budgetary purposes in 2002-03, as shown in Table 12.

(e) "Transfers to Other Funds" includes the \$6.2 billion General Fund loan to the Department of Water Resources Electric Power Purchase Fund. See "STATE FINANCES—Repayment of Energy Loans" and "CURRENT STATE BUDGET" in this APPENDIX A. "Transfers from Other Funds" includes this loan as a receivable in 2000-01. The loan was subsequently repaid with interest as follows: \$116 million in July 2001, \$164 million in October 2002, and \$6.456 billion in November 2002. The loan was reported in the State's Budgetary/Legal Basis Annual Report as an asset of the General Fund and a liability of the Department of Water Resources Electric Power Purchase Fund.

(f) Reflects the transfer of \$2.012 billion economic recovery bond proceeds from the General Fund to the Deficit Recovery Fund pursuant to Chapter 227, Statutes of 2004.

(g) Reflects General Fund payment offsets from moneys deposited in the Deficit Recovery Fund (\$2.012 billion) and the Public Benefit Trust Fund from punitive damages awards (\$450 million).

(h) "Transfer to Other Funds" is included either in the expenditure totals detailed above or as "Transfer from Other Funds."

(i) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Chapter 1238, Statutes of 1990, amended Government Code Section 13307. As part of the amendment, the unencumbered balances of continuing appropriations which exist when no commitment for an expenditure is made should be an item of disclosure, but the amount shall not be deducted from the fund balance. Accordingly, the General Fund condition included in the 2004-05 Governor's Budget includes the unencumbered balances of continuing appropriations as a footnote to the statement (\$587.4 million in 2002-03, \$471.3 million in 2003-04 and \$155.9 million in 2004-05). However, in accordance with Government Code Section 12460, the State's Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.

(j) During 1995, a reserve was established in the General Fund balance for the \$1.7 billion of previously recorded school loans which had been authorized by Chapter 703, Statutes of 1992 and Chapter 66, Statutes of 1993. These loans were repaid from future General Fund appropriations as part of the settlement of litigation. This accounting treatment is consistent with the State's audited financial statements prepared in accordance with GAAP.

(k) Includes Special Fund for Economic Uncertainties ("SFEU"). The Department of Finance generally includes in its estimates of the SFEU and set aside reserves, if any, the items reported in the table under "Reserved for Unencumbered Balances of Continuing Appropriations," "Reserved for School Loans," and "Unreserved—Undesignated." The Department of Finance estimates a \$2.198 billion SFEU balance on June 30, 2004, and projects a \$768 million SFEU balance on June 30, 2005, based upon the 2004 Budget Act, enacted on July 31, 2004.

Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of major General Fund revenue sources and expenditures for the 2002-03 fiscal year and the 2004 Budget Act estimates for the 2003-04 and 2004-05 fiscal years.

TABLE 12
Major General Fund Revenue Sources and Expenditures

Revenues (Millions)

Source	2002-03[a] Actual	2003-04[b] Enacted	2003-04[c] Revised	2004-05[c] Enacted
Personal Income Tax	$32,710	$33,596	$36,000	$38,974
Sales and Use Tax	22,415	23,518	23,720	25,146
Corporation Tax[d]	6,804	7,035	7,280	7,573
Insurance Tax	1,880	2,068	2,090	2,195
Economic Recovery Bonds[e]	9,242	–	2,012	–
All Other	7,513[f]	7,136[g]	5,480[h]	3,363[i]
Total Revenues and Transfers	$80,564	$73,353	$76,582	$77,251

Expenditures (Millions)

Function	2002-03[a] Actual	2003-04[b] Enacted	2003-04[c] Revised	2004-05[c] Enacted
K-12 Education	$28,788	$29,318	$29,767	$34,049
Health and Human Services	23,060	23,358	22,969	25,467
Higher Education	9,488	8,679	8,795	9,360
Youth and Adult Correctional	5,837	5,644	5,424	6,392
Legislative, Judicial and Executive	2,459	2,406	2,549	2,730
Tax Relief	4,447	707[j]	3,334	668[m]
Resources	1,147	865	986	1,020
State and Consumer Services	468	444	471	514
Business, Transportation and Housing	206	512	516	377
All Other	1,582	(796)[k]	2,823[l]	(1,896)[n]
Total Expenditures	$76,482	$71,137	$77,634	$78,681

Footnotes continue on following page.

Source: State of California, Department of Finance. Figures in this table may differ from the figures in Table 4; see "Note" to Table 4.

(a) Figures for 2002-03, prepared by the Department of Finance, are slightly different than the figures in Table 11, prepared by the State Controller's Office, because of certain differences in accounting methods used by the two offices.

(b) 2003 Budget Act, August 2, 2003.

(c) 2004 Budget Act, July 31, 2004.

(d) Reflects the Administration's expectations regarding the effect of the court's decision in *Farmer Brothers Company v. Franchise Tax Board* (California Court of Appeal, Second District, Case No. B160061). A $465 million negative prior year adjustment is included in the 2004 Budget Act.

(e) Reflects the Administration's issuance of economic recovery bonds sufficient to provide $11.254 billion net proceeds to the General Fund in 2003-04 (issued on May 11, 2004 and June 16, 2004). See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS— Economic Recovery Bonds." For budgeting purposes, $9.242 billion of this amount is shown in 2002-03.

(f) Includes $2.5 billion for tobacco securitization bond proceeds and about $2.8 billion in inter-fund loans and transfers.

(g) Includes $2.0 billion for tobacco securitization bond proceeds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Enhanced Tobacco Settlement Revenue Bonds." Also includes the anticipated receipt of $996 million from pension obligation bonds, which were not issued. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Pension Obligation Bonds."

(h) Includes $2.264 billion for tobacco securitization bond proceeds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Enhanced Tobacco Settlement Revenue Bonds."

(i) Includes $300 million for Indian gaming revenues and $577 million from pension obligation bonds.

(j) Reflects the suspension of VLF "backfill" payments to local governments, which was rescinded on November 17, 2003. See "STATE FINANCES—Local Governments."

(k) Reflects reduced expenditures of $912 million due to the anticipated receipt of pension obligation bond proceeds to cover General Fund contributions to pension funds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Pension Obligation Bonds."

(l) Reflects the transfer of $2.012 billion of economic recovery bond proceeds to the Deficit Recovery Fund.

(m) Reflects the proposed elimination of VLF "backfill" payments to local governments.

(n) Reflects General Fund payment offsets from moneys deposited in the Deficit Recovery Fund ($2.012 billion) and the Public Benefit Trust Fund from punitive damages awards ($450 million).

Development of Revenue Estimates

The development of the forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The Department of Finance's Economic Research Unit, under the direction of the Chief Economist, adjusts the national forecast based on the Department's economic outlook. The national economic forecast is used to develop a forecast of similar indicators for California activity.

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash results. The forecast is updated twice a year and released with the Governor's Budget by January 10 and the May Revision by May 14.

Economic Assumptions

The revenue and expenditure assumptions set forth above have been based upon certain estimates of the performance of the California and national economies in calendar years 2004 and 2005. In the May Revision, the Department of Finance projected that the California economy would grow moderately in calendar year 2004 and at a faster pace in calendar year 2005.

Both the California economy and the national economy have improved since the second quarter of 2003. Output of the national economy, adjusted for inflation, has grown more strongly, and job growth has turned around more recently. Personal income growth picked up in California during 2003, particularly in the fourth quarter. Job growth has also improved in the state in recent months but not as much as in the rest of the nation, on average. From April 2003 to April 2004, nonfarm payroll employment rose by 0.6 percent in the State and 0.9 percent in the nation. The state unemployment rate was 6.2 percent in April, down from 6.8 percent a year earlier. The national unemployment rate in April 2004 was 5.6 percent, down from 6.0 percent a year earlier.

California total personal income increased by 4.8 percent from the fourth quarter of 2002 to the fourth quarter of 2003, culminating a year of improving personal income growth. For 2003 as a whole, personal income was up 3.7 percent in the state as compared to 3.3 percent in the nation. In addition, exports of made-in-California merchandise rebounded in the first quarter of 2004, increasing by 25 percent on a year-over-year basis. Exports of high-tech goods rose by 20 percent year-over-year. Also, taxable sales posted a sixth consecutive year-over-year gain in the fourth quarter of 2003. Two regional manufacturing surveys and one statewide survey showed improvement comparable to that seen in the first quarter of 2004 for the nation's manufacturing sector. Personal state income tax withholdings were up 8.8 percent in the first four months of 2004, although about a percentage point and a half of that gain was due to March 2004 having two more days of receipts than March 2003.

Construction and real estate markets remained strong in the state in the first quarter of 2004. Total new units permitted were up slightly from a strong first quarter in 2003. Also, valuation of private nonresidential building permits increased slightly after three years of steady declines.

Low mortgage rates kept residential real estate markets strong in the first quarter of 2004. The median price of homes sold in Southern California hit a new record of $371,000 in March, up 23.3 percent from a year earlier. Sales were up over 17 percent from a year ago. Despite a still-sluggish economy, home price appreciation and sales were also strong in the San Francisco Bay Area. The median price of homes sold was a record $474,000 in March, up 13.1 percent from a year earlier. Sales were up 25 percent from a year ago.

As noted above, the May Revision projects moderate growth in calendar year 2004 and faster growth in calendar year 2005. Unemployment is expected to remain above 6 percent throughout the period. Personal income is projected to grow 5.4 percent in 2004 and 5.6 percent in 2005, which is slower than has been observed in past recoveries

The Department of Finance set out the following estimates for the State's economic performance in calendar years 2004 and 2005, which were used in predicting revenues and expenditures for the May Revision. Also shown is the Department of Finance's previous forecast for the same calendar years, which were contained in the 2004-05 Governor's Budget.

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TABLE 13
ESTIMATES OF STATE'S ECONOMIC PERFORMANCE

	For Calendar Year 2004		For Calendar Year 2005	
	2004-05 Governor's Budget[(a)]	2004-05 May Revision[(b)]	2004-05 Governor's Budget[(a)]	2004-05 May Revision[(b)]
Non-farm wage and salary employment (000)	14,602	14,525	14,906	14,832
Percent Change	1.1%	0.8%	2.1%	2.1%
Personal income ($ billions)	$1,266	$1,262	$1,341	$1,333
Percent Change	5.6%	5.4%	5.9%	5.6%
Housing Permits (Units 000)	192	200	198	200
Consumer Price Index (percent change)	1.9%	2.5%	2.7%	2.3%

(a) Fiscal Year 2004-05 Governor's Budget Summary: January 9, 2004.

(b) May Revision May 13, 2004.

Source: State of California, Department of Finance.

FINANCIAL STATEMENTS

The Audited Annual Financial Statements of the State of California for the Year Ended June 30, 2003 (the "Financial Statements") are available. As of June 30, 2002, the State of California has implemented a new financial reporting model, as required by the Governmental Accounting Standards Board ("GASB") in conformity with accounting principles generally accepted in the United States of America. The GASB sets standards of accounting and financial reporting for state and local governments, which have significantly changed the presentation of the financial statements. The Financial Statements consists of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the State for the Year Ended June 30, 2003 ("Basic Financial Statements"), and Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the new accounting and financial reporting standards is contained in Note 1 of the Basic Financial Statements.

Potential investors may obtain or review a copy of the Financial Statements from the following sources:

1. By obtaining from any Nationally Recognized Municipal Securities Information Repository, or any other source, a copy of the State of California's Official Statement dated March 24, 2004, relating to the issuance of $186,110,000 State Public Works Board Lease Revenue Refunding Bonds (Department of Corrections), Series D and $93,975,000 of State Public Works Board Lease Revenue Refunding Bonds (Department of Corrections), Series E. The Financial Statements are printed in full in such Official Statement. No part of the March 24, 2004 Official Statement is incorporated into this document except the Financial Statements.

2. By accessing the internet website of the State Controller (www.sco.ca.gov) and selecting "California Government—State and Local," then "State Government," then finding the heading "Publications" and selecting "Comprehensive Annual Financial Report—Year Ended June 30, 2003," or by contacting the Office of the State Controller at (916) 445-2636.

3. By accessing the internet website of the State Treasurer (www.treasurer.ca.gov) and selecting "Financial Information" and then "Audited General Purpose Financial Statements," or by contacting the Office of the State Treasurer at (800) 900-3873.

The State Controller's unaudited reports of cash receipts and disbursements for the periods of July 1, 2003 through June 30, 2004 and July 1, 2004 through July 31, 2004 are also included as Exhibits to this APPENDIX A and are available on the State Controller's website.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the Legislative Analyst's Office. The State Controller issues a monthly report on cash receipts and disbursements recorded on the Controller's records. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by State departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into the Official Statement. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in the Official Statement from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The State Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The Constitution guarantees the electorate the right to make basic decisions, including amending the Constitution and local government charters. In addition, the State voters may directly influence State government through the initiative, referendum and recall processes.

California's Legislature consists of a forty-member Senate and an eighty-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Assembly members are limited to three terms in office and Senators to two terms. The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on State finances, among other subjects. The Bureau of State Audits, headed by the State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the State and is elected for a four-year term. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, State law provides for seven other statewide elected officials in the executive branch. The current elected statewide officials, their party affiliation and the dates on which they were first elected are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Arnold Schwarzenegger	Republican	2003
Lieutenant Governor	Cruz Bustamante	Democrat	1998
Controller	Steve Westly	Democrat	2002
Treasurer	Philip Angelides	Democrat	1998
Attorney General	Bill Lockyer	Democrat	1998
Secretary of State	Kevin Shelley	Democrat	2002
Superintendent of Public Instruction	Jack O'Connell	Democrat	2002
Insurance Commissioner	John Garamendi	Democrat	2002

The current term for each office expires in January 2007. Persons elected to statewide offices are limited to two terms in office (eight years) from the dates shown above. Mr. Garamendi previously served as elected Insurance Commissioner before term limits were enacted. Governor Schwarzenegger may seek re-election in 2006 to one term.

The executive branch is principally administered through eleven major agencies and departments: Business, Transportation and Housing Agency, Child Development and Education Agency, Environmental Protection Agency, Department of Finance, Department of Food and Agriculture, Health and Human Services Agency, Labor and Workforce Development Agency, Resources Agency, State and Consumer Services Agency, Department of Veterans Affairs and Youth and Adult Correctional Agency. In addition, some State programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of State government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

California has a comprehensive system of public higher education comprised of three segments: the University of California, the California State University System and California Community Colleges. The University of California provides undergraduate, graduate and professional degrees to students. Approximately 49,650 degrees were awarded in the 2002-03 school year. About 203,900 full-time students were enrolled at the nine UC campuses and the Hastings College of Law in the 2003-04 school year. The California State University System provides undergraduate and graduate degrees to students. Approximately 76,755 degrees were awarded in the 2002-03 school year. About 334,900 full-time students were enrolled at the 23 campuses in the 2003-04 school year. The third sector consists of 109 campuses operated by 72 community college districts which provide associate degrees and certificates to students. Additionally students may attend community colleges to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. Approximately 118,000 associate degrees and certificates were awarded in the 2002-03 school year. About 1.7 million students were enrolled in California's community colleges in the spring of 2003.

Employee Relations

In 2004-05, the State work force is comprised of approximately 318,000 personnel years, of which approximately 116,000 personnel years represent employees of institutions of higher education. Of the remaining 202,000 personnel years, approximately 166,000 are subject to collective bargaining and approximately 36,000 are excluded from collective bargaining. State law provides that State employees, defined as any civil service employee of the State and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. The chosen employee organization has the right to represent its members, except that once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent employees in that unit.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization, and, if agreement is reached, to prepare a memorandum of understanding and present it to the Legislature for ratification. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties, or either party could request the Public Employment Relations Board to appoint a mediator.

There are twenty-one collective bargaining units that represent state employees. Seven bargaining unit contracts expire in June 2005, five expire in June 2006, one expires in July 2006, and two expire in June 2008. For the remaining six units, comprising approximately 15 percent of the State workforce, that do not have a signed contract; the terms of the prior agreements remain in effect. The Department of Personnel Administration is continuing to negotiate with these units. The State has not experienced a major work stoppage since 1972. The California State Employees' Association is the exclusive representative for nine of the twenty-one collective bargaining units, or approximately 50 percent of those employees subject to collective bargaining. Each of the remaining exclusive representatives represents only one bargaining unit. The State recently signed an addendum to the Bargaining Unit 6 (Corrections) memorandum of understanding that will defer a portion of the scheduled salary increases for their members resulting in a savings of $108 million over the next two years.

ECONOMY AND POPULATION

Introduction

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. In early 2001, California's economy slipped into a recession, which was concentrated in the State's high-tech sector and, geographically, in the San Francisco Bay Area. The economy has since stabilized with 136,300 jobs gained between July 2003 and June 2004 compared with 341,200 jobs lost between March 2001 and July 2003. See "CURRENT STATE BUDGET—Economic Assumptions."

Population and Labor Force

The State's July 1, 2003 population of over 35 million represented over 12 percent of the total United States population.

California's population is concentrated in metropolitan areas. As of the April 1, 2000 census, 97 percent resided in the 25 Metropolitan Statistical Areas in the State. As of July 1, 2002, the 5-county Los Angeles area accounted for 49 percent of the State's population, with over 17.0 million residents, and the 10-county San Francisco Bay Area represented 20 percent, with a population of over 7.0 million.

The following table shows California's population data for 1994 through 2003.

TABLE 14
Population 1994-2003[(a)]

Year	California Population	% Increase Over Preceding Year	United States Population	% Increase Over Preceding Year	California as % of United States
1994	31,523,080	0.7%	263,125,821	1.2%	12.0%
1995	31,711,094	0.6	266,278,393	1.2	11.9
1996	31,962,050	0.8	269,394,284	1.2	11.9
1997	32,451,746	1.5	272,646,925	1.2	11.9
1998	32,861,779	1.3	275,854,104	1.2	11.9
1999	33,417,247	1.7	279,040,168	1.2	12.0
2000	34,040,489	1.9	282,177,754	1.1	12.1
2001	34,726,513	2.0	285,093,813	1.0	12.2
2002	35,336,138	1.8	287,973,924	1.0	12.3
2003	35,933,943	1.7	290,809,777	1.0	12.4

(a) Population as of July 1.

Source: U. S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

The following table presents civilian labor force data for the resident population, age 16 and over, for the years 1994 to 2003.

TABLE 15
Labor Force 1994-2003
(Thousands)

Year	Labor Force	Employment	Unemployment Rate (%) California	Unemployment Rate (%) United States
1994	15,294	13,979	8.6%	6.1%
1995	15,236	14,040	7.8	5.6
1996	15,371	14,261	7.2	5.4
1997	15,786	14,792	6.3	4.9
1998	16,138	15,181	5.9	4.5
1999	16,376	15,522	5.2	4.2
2000	16,892	16,057	4.9	4.0
2001	17,172	16,249	5.4	4.7
2002	17,376	16,215	6.7	5.8
2003	17,460	16,283	6.8	6.0

Source: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's non-agricultural employment distribution and growth for 1993 and 2003.

TABLE 16
Payroll Employment By Major Sector
1993 and 2003

	Employment (Thousands)		% Distribution of Employment	
Industry Sector	**1993**	**2003**	**1993**	**2003**
Trade, Transportation and Utilities	2,337.6	2,722.0	19.4%	18.9%
Government				
Federal Government	336.2	258.7	2.8	1.8
State and Local Government	1,744.4	2,167.7	14.5	15.0
Professional and Business Services	1,541.6	2,108.1	12.8	14.6
Manufacturing				
Nondurable goods	613.4	563.1	5.1	3.9
High Technology	523.2	399.5	4.4	2.8
Other Durable Goods	558.6	582.3	4.6	4.0
Educational and Health Services	1,195.8	1,536.3	9.9	10.7
Leisure and Hospitality	1,124.5	1,397.6	9.3	9.7
Financial Activities	787.0	886.8	6.5	6.2
Construction	458.9	788.8	3.8	5.5
Other Services	408.2	505.8	3.4	3.5
Information	386.2	471.4	3.2	3.3
Natural Resources and Mining	29.8	22.1	0.3	0.1
TOTAL NON-AGRICULTURAL	12,045.4	14,410.2	100%	100%

Source: State of California, Employment Development Department.

The following tables show California's total and per capita income patterns for selected years.

TABLE 17
Total Personal Income in California 1994-2003[a]

Year	Millions	% Change[b]	California % of U.S.
1994[c]	$ 730,529	3.2%	12.4%
1995	765,806	4.8	12.4
1996	810,448	5.8	12.3
1997	860,545	6.2	12.4
1998	936,009	8.8	12.5
1999	999,228	6.8	12.7
2000	1,103,842	10.5	13.0
2001	1,135,848	2.9	13.0
2002	1,154,685	1.7	12.9
2003	1,197,550	3.7	12.9

(a) Bureau of Economic Analysis (BEA) estimates as of April 2004.
(b) Change from prior year.
(c) Reflects Northridge earthquake, which caused an estimated $15 billion drop in personal income.

Note: Omits income for government employees overseas.

Source: U.S. Department of Commerce, BEA.

TABLE 18
Per Capita Personal Income 1994-2003[a]

Year	California	% Change[b]	United States	% Change[b]	California % of U.S.
1994[c]	$23,203	2.5%	$22,172	3.9%	104.7%
1995	24,161	4.1	23,076	4.1	104.7
1996	25,312	4.8	24,175	4.8	104.7
1997	26,490	4.7	25,334	4.8	104.6
1998	28,374	7.1	26,883	6.1	105.5
1999	29,828	5.1	27,939	3.9	106.8
2000	32,466	8.8	29,847	6.8	108.8
2001	32,892	1.3	30,527	2.3	107.7
2002	32,989	0.3	30,906	1.2	106.7
2003	33,749	2.3	31,632	2.3	106.7

(a) BEA's estimates as of April 2004.
(b) Change from prior year.
(c) Reflects Northridge earthquake, which caused an estimated $15 billion drop in personal income.

Note: Omits income for government employees overseas.

Source: U.S. Department of Commerce, BEA.

The following tables show California's residential and non-residential construction.

TABLE 19
Residential Construction Authorized by Permits

Year	Units			Valuation[a]
	Total	Single	Multiple	(millions)
1995	85,293	68,689	16,604	$13,879
1996	94,283	74,923	19,360	15,289
1997	111,716	84,780	26,936	18,752
1998	125,707	94,298	31,409	21,976
1999	140,137	101,711	38,426	25,783
2000	148,540	105,595	42,945	28,142
2001	148,757	106,902	41,855	28,804
2002	167,761	123,865	43,896	33,305
2003	195,682	138,762	56,920	38,968

(a) Valuation includes additions and alterations.

Source: Construction Industry Research Board

TABLE 20
Nonresidential Construction
(Thousands of dollars)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
1995	$2,308,911	$ 732,874	$1,050,693	$4,062,273	$ 8,154,751
1996	2,751,925	1,140,574	1,152,443	4,539,219	9,584,161
1997	4,271,378	1,598,428	1,378,220	5,021,792	12,269,818
1998	5,419,251	2,466,530	1,782,337	5,307,901	14,976,019
1999	5,706,719	2,256,166	2,350,213	6,269,194	16,582,292
2000	6,962,031	2,206,169	2,204,754	7,252,004	18,624,958
2001	6,195,368	1,552,047	2,584,321	6,421,551	16,753,287
2002	5,195,348	1,227,754	2,712,681	5,393,329	14,529,112
2003	4,039,561	1,320,222	2,954,039	5,601,117	13,914,939

Source: Construction Industry Research Board

The following table shows California's export growth for the period from 1996 through 2003.

TABLE 21
Exports Through California Ports
(In millions)

Year	Exports[a]	% Change[b]
1996	$124,120.0	6.2%
1997	131,142.7	5.7
1998	116,282.4	-11.3
1999	122,092.8	5.0
2000	148,554.6	21.7
2001	127,255.3	-14.3
2002	111,340.1	-12.5
2003	113,550.7	2.0

(a) "Free along ship" Value Basis.
(b) Change from prior year.

Source: U.S. Department of Commerce, Bureau of the Census

LITIGATION

The State is a party to numerous legal proceedings. The following are the most significant pending proceedings, as reported by the Office of the Attorney General. See "LITIGATION" in the main body of the Official Statement.

Challenge Related to the Vehicle License Fee Offset and Related Payments to Local Governments

State law establishes an excise tax on motor vehicles and manufactured homes in the amount of two percent (2%) of the vehicle's or home's fair market value. In 1999, pursuant to Revenue and Taxation Code section 10754, the Legislature adopted successive offsets to the vehicle license fee paid by vehicle owners and mobile home owners. As a result of these offsets, the State transferred money each month from the General Fund to local governments in the amount of the cumulative offsets. In June 2003, the Davis Administration determined that there were insufficient moneys available to be transferred from the General Fund to fund vehicle license fee offset payments the State was making to local governments. See "STATE FINANCES—Local Governments—Vehicle License Fee." This caused the State Department of Motor Vehicles and the State Department of Housing and Community Development to discontinue the offsets and, correspondingly, the amount of vehicle license fees paid by vehicle owners and mobile home owners increased. Shortly after taking office on November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03, rescinding the Davis Administration's action and directing the Department of Motor Vehicles to reinstate the General Fund offset to the vehicle license fee provided in Revenue and Taxation Code Section 10754 "as soon as administratively feasible." By subsequent administrative action, the Administration adjusted current year expenditures in order to commence transfers from the General Fund to local governments in the amount of the offsets. On January 30, 2004, *Robert Brooks and David Gautreaux v. Governor Arnold Schwarzenegger* (Case No. BC309929) was filed in the Los Angeles County Superior Court. In this case, plaintiffs allege that the adjustments of current year expenditures made by the Administration in order to provide for the transfers to local governments violates the California Constitution, and ask the Court to enjoin the Director of

Finance and the Controller from making offset-related payments to local governments until an appropriation for that purpose is made by the Legislature. This matter is pending in the trial court.

Challenge Seeking Payment to Teacher's Retirement Board

In May 2003, the Legislature enacted legislation (Chapter 6, Statutes of 2003-04, First Extraordinary Session, Senate Bill No. 20, "SBX1 20") that deferred the payment of $500 million to CalSTRS's Supplemental Benefit Maintenance Account ("SBMA"). SBX1 20 also establishes an appropriation of an amount not to exceed $500 million, in 2006 and every four years thereafter, for the purpose of funding the SBMA. The actual amount of such appropriation, if any, will be determined following a report by the CalSTRS managing board that the funds in the SBMA will be insufficient in any fiscal year before July 1, 2036 to provide certain payments to CalSTRS members, and the certification of the amount of any such appropriation by the State's Director of Finance. On October 14, 2003, the CalSTRS board and certain CalSTRS members filed a complaint, now pending in the Sacramento County Superior Court as *Teacher's Retirement Board, as Manager of the California State Teachers, Retirement System, et al. v. Donna Arduin, Director of California Department of Finance, and Steve Westly, California State Controller* (Case No. 03CS01503). This lawsuit seeks, primarily, a writ of mandate compelling the State Controller to transfer funds from the State's General Fund to the SBMA in an amount equal to the continuing appropriation as it existed prior to the enactment ofSBX1 20. It also seeks injunctive and declaratory relief to the same effect. On August 20, 2004, the trial court heard a motion for summary judgment in this case brought by the Director of Finance. The trial court judge has taken the matter under submission. To the extent the trial court does not grant the motion for summary judgment, trial is currently scheduled to begin on December 17, 2004.

Actions Seeking Flood-Related Damages

In January of 1997, California experienced major flooding with preliminary estimates of property damage of approximately $1.6 to $2.0 billion. In *McMahan v. State*, (Sacramento County Superior Court, Case No. 02-AS-06058), a substantial number of plaintiffs have joined suit against the State, local agencies, and private companies and contractors seeking compensation for the damages they suffered as a result of the flooding. A trial date has been scheduled for October 24, 2004. The State is vigorously defending the action.

Paterno v. State of California (Yuba County Superior Court, Judicial Counsel Coordination Proceeding 2104) is a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court found liability in inverse condemnation and awarded damages of $500,000 to a sample of plaintiffs. The State's potential liability to the remaining plaintiffs ranges from $800 million to $1.5 billion. In 1992, the State and plaintiffs filed appeals of the decision in the sample plaintiffs' action, and upon remand, plaintiffs' inverse condemnation cause of action was re-tried. The trial court ruled in favor of the State as to all plaintiffs. The appellate court reversed the trial court judgment and remanded the case to the trial court with directions to enter judgment in favor of plaintiffs and ordered the State to pay costs on appeal and costs of suit, including reasonable attorney, appraisal and engineering fees actually incurred. On March 17, 2003, the Supreme Court denied the State's petition for review (California Supreme Court, Case No. S121713) of the appellate court's decision. That denial brought the liability phase of this litigation to a close. The issues of damages, interest, fees, costs and expenses are being litigated in the Yuba County Superior Court. Further action on these issues has been temporarily stayed, pending resolution of an interim writ proceeding pending in the Court of Appeal (Third Appellate District, *Paterno et al. v. Superior Court, Yuba County*, Case No. C046473).

Tax Refund Cases

Six pending cases challenge the Franchise Tax Board's treatment of receipts from investment of cash in short-term financial instruments, and the resulting impact on the apportionment of corporate income allegedly earned outside of California to the corporation's California tax obligation. In *General Motors Corp. v. Franchise Tax Board*, the California Court of Appeal affirmed the trial court's ruling in favor of the Franchise Tax Board on this issue and General Motors has filed a petition for review of this decision with the California Supreme Court (*General Motors Corp. v. Franchise Tax Board*, Case No. S127086). *The Limited Stores, Inc. and Affiliates v. Franchise Tax Board* is pending in the Court of Appeal, First Appellate District (Case No. A102915); *Toys "R" Us, Inc. v. Franchise Tax Board* is pending in the Court of Appeal, Third Appellate District (Case No. C045386); and *Microsoft Corporation v. Franchise Tax Board* is pending in the Court of Appeal, First Appellate District (Case No. A105312). The trial courts in *The Limited Stores* and *Toys "R" Us* ruled in favor of the Franchise Tax Board on this issue; in *Microsoft Corporation*, the trial court ruled against the Franchise Tax Board. *Montgomery Ward LLC v. Franchise Tax Board* is pending in the San Diego Superior Court (Case No. 802767), and *Colgate-Palmolive v. Franchise Tax Board* is pending in the Sacramento County Superior Court (Case No. 03AS00707). Other taxpayers have raised this same issue in administrative actions. A final decision in favor of any of these plaintiffs could result in tax refunds to similarly situated taxpayers in an amount exceeding $400 million, with a potential future annual revenue loss of $85 million. The State is vigorously litigating this issue.

In *County of Orange v. Orange County Assessment Appeals Board #3; Bezaire, et al., Real Parties in Interest*, (Court of Appeal, Fourth Appellate District, Division 3, Case No. G032412), the court issued a unanimous published decision (117 Cal.App.4th 121) reversing a trial court decision that determined the Orange County assessor's office had received property taxes from two taxpayers in excess of the amounts collectable under Article XIII A of the California Constitution (implemented in 1978 by Proposition 13). The plaintiffs' legal claim focused on the constitutionality of the practice of the Orange County assessor's office to increase or "recapture" the assessed values of real properties that temporarily decline and then increase in value. On July 21, 2004, the California Supreme Court (Case No. S124682) denied plaintiffs' petition for review. That brings this case to a close. However, a similar challenge to the practices of the assessor for the County of Marin, *Alan J. Titus and Marjorie Goldman v. County of Marin,* is pending in the Court of Appeal, First Appellate District, Division Two (Case No. A104960). The State is not a party to this pending litigation, but the effects of a final determination by an appellate court that the contested assessment practices are contrary to Proposition 13 could result in an increase in the State general fund component of the financing guarantee to public schools established by Proposition 98 (see "STATE FINANCES—Proposition 98") in an amount in excess of several billion dollars.

Environmental Cleanup Matter

In a federal Environmental Protection Agency ("U.S. EPA") administrative abatement action entitled *In the Matter of: Leviathan Mine, Alpine County, California, Regional Water Quality Control Board, Lahontan Region, State of California* (U.S. EPA Region IX CERCLA Docket No. 00-16(a)), the State, as owner of the Leviathan Mine, is a party through the Lahontan Regional Water Quality Control Board ("Board"). Also a party is ARCO, the successor in interest to the mining company that caused certain pollution of the mine site. The Leviathan Mine site is listed on the U.S. EPA "Superfund" List, and both remediation costs and costs for Natural Resource Damages may be imposed on the State. The alleged bases for the State's liability are the State's ownership of the mine site and the terms of a 1983 settlement agreement with ARCO. The Board has undertaken certain remedial action at the mine site, but the U.S. EPA's decision on the interim and final remedies are pending. ARCO has filed several state law claims against the State with the California Victim Compensation and Government Claims Board (an administrative agency with which certain claims must be filed as a prerequisite to litigation seeking damages against the State which was formerly named the Board of Control, the "Government Claims Board"), but litigation on these claims have been tolled by agreement of the parties until at least October, 2004. It is possible these matters could result in a potential loss to the State in excess of $400 million.

Energy-Related Matters

In *People v. ACN Energy, Inc., et al.* (Sacramento County Superior Court, Case No. 01AS05497), the court is considering whether and to what extent compensation is due to market participants which have claimed compensation as a result of the Governor's issuance of executive orders, under the California Emergency Service Act, "commandeering" power purchase arrangements held by Pacific Gas & Electric Company ("PG&E") and Southern California Edison ("SCE"), referred to as "block forward contracts." In this action the State seeks a declaration that the State is not liable for damages as a result of these orders, nor for compensation for inverse condemnation, and that any damages suffered by any of the defendants is offset by payments made by the Department of Water Resources for electricity received under the "commandeered" "block forward contracts." Complaints and cross-complaints for inverse condemnation, recovery under the Emergency Services Act and other causes of action brought by PG&E, Reliant Energy Services, Dynegy Power Marketing, Williams Energy Services, Sempra Energy Trading, the California Power Exchange, Mirant Americas Energy, Duke Energy Trading and Marketing, and numerous other market participants have been joined with the declaratory relief action in Judicial Council Coordination Proceeding No. 4203, in Sacramento County Superior Court. In an administrative proceeding action before the Government Claims Board (which was dismissed on procedural grounds), the California Power Exchange stated claims for "commandeering" the "block forward contracts" in the amount of approximately $1 billion.

Pacific Gas and Electric Company v. The State of California is now pending in the Court of Appeal, Third Appellate District (Case No. C043507). In the trial court, PG&E filed a complaint for breach of contract alleging that statutes enacted in 1996 as part of the restructuring of the electric power industry in California ("AB 1890") established a "regulatory contract" between the State and PG&E that authorized PG&E to sell the output of its retained generation facilities in interstate power markets at prices regulated by FERC and to sell the facilities themselves, and that by amending AB 1890 in 2001, the State deprived PG&E of the right to such sales and thereby breached that "regulatory contract." PG&E's complaint sought damages in an amount to be proven, but in an administrative proceeding before the Government Claims Board, in which PG&E's claims were denied, PG&E sought damages of at least $4.3 billion to compensate for the losses alleged in this action. The trial court sustained the demurrer of the State without leave to amend, dismissing the lawsuit. The pending action is PG&E's appeal of that dismissal.

Escheated Property Claims

In three pending cases, plaintiffs claim that the State Controller has a constitutional and statutory duty to give notice prior to the time the Controller sells property that has escheated to the State (in these cases, shares of stock): *Lusby-Taylor v. Connell* (U.S. Court of Appeals for the Ninth Circuit, Case No. 02-16511); *Orfield v. Connell* (Los Angeles County Superior Court, Case No. BC288429); and *Suever v. Connell* (U.S. Court of Appeals for the Ninth Circuit, Case No. 04-15555). The plaintiffs also claim that the Controller failed to comply with statutory notice requirements when it first received property that had escheated to the State. The plaintiffs seek damages, which certain plaintiffs have articulated as being in the amount of the difference between the amount they were paid for the stock upon its sale, and either the current value of the stock or the highest market value of the stock between the date the Controller sold the stock and the present. All of these cases are styled as class actions, though in Lusby-Taylor that issue was not determined prior to the trial court decision that is being appealed. If one or more of these cases is certified as a class action and the class ultimately prevails on the merits, damages for the class could be in excess of $500 million. The State has prevailed at the trial court in *Suever* and *Lusby-Taylor*. *Orfield* is being litigated in the trial court. The State is vigorously defending all of these actions. The State has ultimately prevailed in two cases in which plaintiffs also claimed that the Controller's unclaimed property notice practices were unconstitutional and failed to meet statutory requirements: *Fong v. Westly* (2004) 117 Cal.App.4th 841 and *Harris v. Westly* (2004) 116 Cal.App.4th 214.

In three pending cases, plaintiffs claim that the State Controller has an obligation to pay interest on private property that has escheated to the State, and that failure to do so constitutes an unconstitutional taking of private property: *Morris v. Westly* (Los Angeles County Superior Court, Case No. BC310200); *Trust Realty Partners v. Westly* (Sacramento County Superior Court, Case No. 04AS02522); and *Browne v. Westly* (Sacramento County Superior Court, Case No. 04AS02570). The *Browne* and *Trust Realty* lawsuits focus on the State's elimination of interest payments on unclaimed property claims (Code of Civil Procedure Section 1540, subdivision (c), as amended effective August 11, 2003, "CCP 1540"), and the *Morris* lawsuit challenges both the elimination of interest and whether the State's custodial use of escheated funds entitles the claimant to constructive interest. The *Morris* case seeks a class action determination, and identifies a purported class that could be interpreted to include all persons or entities whose property has been taken into custody by the State. On behalf of the articulated class, the plaintiff in *Morris* seeks a declaration that failure to pay interest is an unconstitutional taking and, among other things, an injunction restraining the State Controller from pursuing the practices complained of in the complaint. The *Browne* and *Trust Realty Partners* cases are not styled as class actions suits, but in addition to seeking general and special damages in a sum according to proof at trial, each case seeks a common fund recovery and an injunction restraining the Controller from engaging in the acts alleged in their respective complaints. If the *Morris* case ultimately prevails as a class action, or the injunctions prayed for in either of the *Browne* or *Trust Realty Partners* cases are issued and upheld, in any case to require the State Controller to pay interest on escheated property as the plaintiffs allege is required by law, costs to the State could be in excess of $500 million.

Action Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.*, (Los Angeles County Superior Court, Case No. BC 227373), a proposed class action, plaintiffs seek damages for alleged violations of prison visitors' rights resulting from the Department of Corrections' use of a body imaging machine to search visitors entering state prisons for contraband. If this action is certified as a class action, and a court were to award damages pursuant to the California Civil Code for every use of the body imaging machine, damages could be as high as $3 billion. The State is vigorously defending this action.

Actions Seeking Program Modifications

In the following cases, plaintiffs seek court orders or judgments that would require the State to modify existing programs and, except as specified, do not seek monetary damages. Nevertheless, a judgment against the State in any one of these cases could require changes in the challenged program that could result in increased programmatic costs to the State in a future fiscal year in excess of $400 million. Alternatively, in some circumstances, it may be possible that a judgment against the State could be addressed by legislative changes to the program that would cost less.

In *Williams, et al., v. State of California, et al.*, (San Francisco County Superior Court, Case No. 312236), a class action for declaratory relief and injunction brought by public school students against the State, the Board of Education, and Department of Education and the Superintendent of Public Instruction, the class alleges inadequacies in the public education system and seeks a variety of programmatic changes to the system including elimination of some types of multi-track, year-round school schedules. A settlement has been reached in this case, which by its terms is subject to the enactment of certain proposed legislation. The settlement agreement provides proposed legislation which would fund a program to authorize school districts to spend up to $800 million over a period of years for repairs of school facilities at the lowest performing schools; $138.7 million for new instructional materials for students attending certain low performing schools; and $50 million to conduct an assessment of facilities conditions, supplement county school superintendents' capacity to oversee low performing schools and to fund emergency repairs in low performing schools. The legislation also establishes requirements regarding the use of these funds and a variety of other provisions pertaining to education in California. Pursuant to the settlement agreement, the plaintiffs are required to notify the State on or before October 15, 2004, whether the plaintiffs agree that legislation has been adopted as of that date which substantially conforms to the terms of the settlement agreement. The parties have agreed to engage in consultation if substantially conforming legislation has not been adopted as of that date.

In *Natural Resources Defense Council et al., v. California Department of Transportation et al.*, (United States District Court, Central District, Case No. 93-6073-ER-(JRX)), plaintiffs obtained an injunction requiring the Department of Transportation (the "Department") to comply with National Pollution Discharge Elimination System ("NPDES") requirements under the federal Clean Water Act ("Act") in connection with storm water discharges from State highways and construction sites in an area that includes most of Los Angeles and Ventura Counties. There is an established dispute resolution procedure intended to resolve disputes without a return to federal court. Subsequent modifications of the injunction have provided for, among other things, studies of pilot projects to address control of the sources of storm water pollution and the performance of studies of pilot projects to retrofit highways with storm water pollution control facilities. There has been no agreement regarding what measures arising out of the pilot projects and studies will be implemented. Plaintiffs' position is that the Department should be required to retrofit its facilities to treat storm water, regardless of whether any construction is otherwise planned in any given area. For planning purposes, the Department is including an additional 3 percent in the cost of future statewide construction and maintenance projects to pay for compliance measures. This 3 percent increase amounts to $500 million through fiscal year 2006-07. While the impact of a judgment of the scope sought by plaintiffs is difficult to determine, it is possible that a judgment that would require the State to retrofit all its highway facilities throughout the State could cost billions of dollars.

The following cases seek reforms to State programs for the treatment of institutionalized disabled persons. Some rough estimates suggest the financial impact of a judgment against the State defendants in any of these cases could be as high as $1 billion per year in programmatic costs going forward. The State is vigorously defending these actions.

In *Stephen Sanchez, et al. v. Grantland Johnson, et al.*, (U.S. Court of Appeals for the Ninth Circuit, Case No 04-15228), the plaintiffs have appealed a decision by the U.S. District Court dismissing plaintiffs' class action seeking declaratory and injunctive relief. The plaintiffs sought relief, alleging, in part, that provider rates for community-based services for developmentally disabled individuals are discriminatory under the ADA, and violate the Social Security Act, Civil Rights Act and the Rehabilitation Act, because they result in unnecessary institutionalization of developmentally disabled persons.

In *Capitol People First v. Department of Developmental Services* (Alameda County Superior Court, Case No. 2002-038715) a consortium of state and national law firms and public-interest groups brought suit against the Departments of Finance, California Department of Developmental Services and California Department of Health Services, alleging violations of the Lanterman Act, the ADA, and section 504 of the Rehabilitation Act by defendants needlessly isolate thousands of people with developmental disabilities in large facilities. The case seeks sweeping reforms, including requiring the State to offer a full range of community-based services.

Local Government Mandate Claims and Actions

In a test claim filed by the County of San Bernardino, now pending before the Commission on State Mandates (the "Commission") (Medically Indigent Adults, 01-TC-26 County of San Bernardino, Claimant, Statutes 1982, Chapters 328 and 1594), the Commission is being asked to determine the costs incurred by the county to provide state-mandated care of medically indigent adults ("MIAs"). The amount demanded in the claim for unreimbursed costs for fiscal year 2000-2001 is just over $9.2 million. The County of San Bernardino's test claim poses a potential for a negative impact on the General Fund in the amount of the unreimbursed costs for all similarly situated county claimants for a period of years, as determined by the Commission. Certain estimates of the annual cost of the services rendered by all counties to MIAs exceed $4 billion. How much of that will be determined to be "unreimbursed" to the counties by the State is unknown. In recent years, the counties have received approximately $1 billion annually in vehicle license fee revenue and $410 million annually in sales tax revenue to fund various public health programs, which include the programs that provide services to MIAs. The State law that authorized the transfer of the vehicle license fee portion of this revenue to the counties and the authority to transfer the revenue to the counties were automatically repealed as a result of a provision of State law, which was triggered as a result of a final appellate court decision (*County of San Diego v. Commission on State Mandates et al.* Fourth Appellate District, Case No. D039471; petition for review denied by the California Supreme Court) that awarded the County of San Diego unreimbursed costs for medical services rendered to MIAs. Various regulatory and statutory steps have been and are being taken to address this reduction in revenues. See "STATE FINANCES—Local Governments—Vehicle License Fee."

Six lawsuits are pending that challenge the State's practice in recent years of deferring payments to local governments for certain state-mandated services and programs by making a budgetary appropriation of $1,000 for each program, to be divided among all 58 counties. Four lawsuits were consolidated in the Sacramento County Superior Court (*County of San Diego v. State of California, et al.*, Case No. 04AS00371; *County of Orange v. State of California, et al.*, Case No. 04AS01341; *Sacramento County v. State of California, et al.*, Case No. 04AS01355; and *County of Contra Costa v. State of California, et al.*, Case No. 04AS01039). In this consolidated case, the trial court ruled that a single $1,000 appropriation for the costs of a program to provide mental health services to disabled students did not constitute full reimbursement of the mandated costs of that program, as required by the State Constitution. The trial court declared that the plaintiff counties were relieved of the obligation to provide the mandated mental health services absent adequate good faith reimbursement from the State. The Administration has not yet determined whether to appeal this judgment. Two additional lawsuits alleging that the State's practice violates the State Constitution were consolidated in San Diego County Superior Court: *County of San Diego v. State of California, et al.* (Case No. GIC 825109) and *County of Orange v. State of California, et al.* (Case No. GIC 827845). These plaintiff counties are seeking full payment for the unreimbursed costs of implementing a variety of programs over the last few years. A hearing on the counties' motion for judgment on the pleadings is scheduled for October 15, 2004. The County of San Diego has alleged unreimbursed costs in excess of $40 million through fiscal year 2003-04 for a variety of programs. The County of Orange has alleged in excess of $116 million for unreimbursed state-mandated costs. The effects of a final determination by an appellate court that the contested appropriation practices are unconstitutional or that the State is required to appropriate an amount equal to the amount of the mandated costs, if applied to each of California's 58 counties, could result in costs in excess of $1.5 billion for existing unreimbursed mandates.

Action for Damages for Alleged Destruction at Indian Burial Sites

On January 16, 2004, *John Tommy Rosas v. United States of America, et al.* was filed in the United States District Court, Central District of California (Case No. CV04-312 WMB (SSx)). Plaintiff, in his individual capacity and as the alleged vice-chairman of the Tribal Counsel, Gabrielino/Tongva Indians of California, alleges violation of various federal statutes by a variety of federal agencies, corporations, individuals and four State entities (the California Coastal Commission, the Regional Water Quality Control Board, the State Historic Preservation Officer and the California Native American Heritage Commission). Plaintiff alleges that in allowing the development of certain property, defendants violated federal laws protecting sacred Indian burial sites. Plaintiff seeks damages in the amount of $525 million. Plaintiff has not properly served the California state agency defendants. In February 2004, the corporate defendants filed a motion to dismiss. Plaintiff has not responded to this motion, and it remains pending before the court.

STATE DEBT TABLES

The tables which follow provide information on outstanding State debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for State general obligation and lease-purchase bonds, and authorized and outstanding State revenue bonds. For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the State expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the State to pay principal and interest on the bonds from the General Fund.

"Special Revenue Fund bonds" also known as "economic recovery bonds," are "self liquidating" general obligation bonds which are primarily secured by a pledge of amounts on deposit in the Fiscal Recovery Fund. Debt service payments are made directly from the Fiscal Recovery Fund and not the General Fund. The Special Revenue Fund bonds are also general obligations of the State to which the full faith and credit of the State are pledged to the punctual payment of the principal of and interest thereon.

As of August 31, 2004 the State had $1,021,605,000 of outstanding commercial paper notes.

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OUTSTANDING STATE DEBT
FISCAL YEARS 1999-00 THROUGH 2003-04
(Dollars in Thousands Except for Per Capita Information)

	1999-00	2000-01	2001-02	2002-03	2003-04
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)..................	$ 17,869,616	$ 20,472,893	$ 22,115,362	$ 26,758,626	$ 33,028,807
Enterprise Fund (Self Liquidating)......................	3,474,900	3,396,215	3,211,310	2,801,775	2,210,800
Special Revenue Fund (Self-Liquidating)……..	0	0	0	0	10,896,080
Total..	$ 21,344,516	$ 23,869,108	$ 25,326,672	$ 29,560,401	$ 46,135,687
Lease-Purchase Debt...	6,627,944	6,413,260	6,341,935	6,704,599	7,288,147
Total Outstanding General Obligation Bonds and Lease-Purchase Debt......................	$ 27,972,460	$ 30,282,368	$ 31,668,607	$ 36,265,000	$ 53,423,834
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds....	$ 2,750,000	$ 4,419,665	$ 3,905,025	$ 5,150,000	$ 7,816,275
Self Liquidating General Obligation Bonds............	$ 126,500	$ 358,625	$ 111,325	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds..	$ 0	$ 0	$ 0	$ 0	$ 10,896,080
Lease-Purchase Debt..	$ 293,235	$ 214,585	$ 229,105	$ 673,975	$ 1,235,660
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds....	$ 2,045,566	$ 2,279,636	$ 2,367,570	$ 1,738,740	$ 1,861,739
Lease-Purchase Debt..	$ 654,485	$ 670,228	$ 647,568	$ 664,846	$ 689,851
General Fund Receipts (b).....................................	$ 72,226,473	$ 78,330,406	$ 66,604,508	$ 78,587,019	$ 90,639,818
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts...	2.83%	2.91%	3.55%	2.21%	2.05%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts................	0.91%	0.86%	0.97%	0.85%	0.76%
Population (c)...	33,417,247	34,036,376	34,698,173	35,336,138	35,933,943
Non-Self Liquidating General Obligation Bonds Outstanding Per Capita...	$ 534.74	$ 601.50	$ 637.36	$ 757.26	$ 919.15
Lease-Purchase Debt Outstanding Per Capita.........	$ 198.34	$ 188.42	$ 182.77	$ 189.74	$ 202.82
Personal Income (d)...	$ 995,326,000	$1,100,679,000	$1,129,868,000	$1,154,685,000	$ 1,197,550,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income....	1.80%	1.86%	1.96%	2.32%	2.76%
Lease-Purchase Debt Outstanding as Percentage of Personal Income............................	0.67%	0.58%	0.56%	0.58%	0.61%

(a) As of last day of fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Calculated on a cash basis; debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal year.
(c) As of July 1, the beginning of the fiscal year.
(d) Source: U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/
Annual Totals: "Pre-benchmark" Revisions: Released April 2004. California Department of Finance.

SOURCES: Population: State of California, Department of Finance
Personal Income: State of California, Department of Finance; United States, Department of Commerce, Bureau of Economic Analysis (BEA)
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of August 1, 2004

(Thousands)

	Voter Authorization		Bonds	CP Program	
	Date	Amount	Outstanding (a)	Authorized (b)	Unissued (c)
GENERAL FUND BONDS (Non-Self Liquidating)					
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	3/5/2002	$ 2,600,000	$ 219,360	$ 1,350,510	$ 1,030,130
California Library Construction and Renovation Bond Act of 1988	11/8/1988	75,000	45,700	0	2,595
California Library Construction and Renovation Bond Act of 2000	3/7/2000	350,000	4,510	47,350	298,100
California Park and Recreational Facilities Act of 1984	6/5/1984	370,000	113,140	n.a.	1,100
California Parklands Act of 1980	11/4/1980	285,000	23,290	n.a.	0
California Safe Drinking Water Bond Law of 1976	6/8/1976	175,000	34,495	n.a.	2,500
California Safe Drinking Water Bond Law of 1984	11/6/1984	75,000	22,145	n.a.	0
California Safe Drinking Water Bond Law of 1986	11/4/1986	100,000	56,025	n.a.	0
California Safe Drinking Water Bond Law of 1988	11/8/1988	75,000	48,580	7,100	0
California Wildlife, Coastal, and Park Land Conservation Act of 1988	6/7/1988	776,000	384,450	n.a.	7,330
Class Size Reduction Public Education Facilities Bond Act of 1998 (Hi Ed)	11/3/1998	2,500,000	2,043,030	413,985	0
Class Size Reduction Public Education Facilities Bond Act of 1998 (K-12)	11/3/1998	6,700,000	6,390,755	26,990	0
Clean Air and Transportation Improvement Bond Act of 1990	6/5/1990	1,990,000	1,347,940	193,205	40,925
Clean Water and Water Conservation Bond Law of 1978	6/6/1978	375,000	27,230	n.a.	0
Clean Water and Water Reclamation Bond Law of 1988	11/8/1988	65,000	45,560	0	0
Clean Water Bond Law of 1970	11/3/1970	250,000	3,500	n.a.	0
Clean Water Bond Law of 1974	6/4/1974	250,000	7,665	n.a.	0
Clean Water Bond Law of 1984	11/6/1984	325,000	71,925	n.a.	0
Community Parklands Act of 1986	6/3/1986	100,000	37,445	n.a.	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/8/1988	500,000	293,920	0	0
County Correctional Facility Capital Expenditure Bond Act of 1986	6/3/1986	495,000	192,955	n.a.	0
County Jail Capital Expenditure Bond Act of 1981	11/2/1982	280,000	42,650	n.a.	0
County Jail Capital Expenditure Bond Act of 1984	6/5/1984	250,000	36,150	n.a.	0
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	6/5/1990	300,000	204,750	59,450	0
Fish and Wildlife Habitat Enhancement Act of 1984	6/5/1984	85,000	24,535	n.a.	0
Hazardous Substance Cleanup Bond Act of 1984	11/6/1984	100,000	5,000	n.a.	0
Higher Education Facilities Bond Act of 1986	11/4/1986	400,000	111,900	n.a.	0
Higher Education Facilities Bond Act of 1988	11/8/1988	600,000	289,890	3,440	7,000
Higher Education Facilities Bond Act of June 1990	6/5/1990	450,000	249,780	2,130	0
Higher Education Facilities Bond Act of June 1992	6/2/1992	900,000	633,975	4,840	3,440
Housing and Emergency Shelter Trust Fund Act of 2002	11/5/2002	2,100,000	0	980,000	1,120,000
Housing and Homeless Bond Act of 1990	6/5/1990	150,000	6,400	n.a.	0
Kindergarten - University Public Education Facilities Bond Act of 2002 (K-12)	11/5/2002	11,400,000	7,930,550	3,469,450	0
Kindergarten - University Public Education Facilities Bond Act of 2002 (Hi-Ed)	11/5/2002	1,650,000	84,705	197,295	1,368,000
Kindergarten - University Public Education Facilities Bond Act of 2004 (K-12)	3/2/2004	10,000,000	0	10,000,000	0
Kindergarten - University Public Education Facilities Bond Act of 2004 (Hi-Ed)	3/2/2004	2,300,000	0	0	2,300,000
Lake Tahoe Acquisitions Bond Act	8/2/1982	85,000	23,290	n.a.	0
New Prison Construction Bond Act of 1981	6/8/1982	495,000	24,500	n.a.	0
New Prison Construction Bond Act of 1984	6/5/1984	300,000	22,500	n.a.	0
New Prison Construction Bond Act of 1986	11/4/1986	500,000	150,745	n.a.	0
New Prison Construction Bond Act of 1988	11/8/1988	817,000	396,180	12,260	0
New Prison Construction Bond Act of 1990	6/5/1990	450,000	228,545	6,125	0

	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	CP Program Authorized (b)	Unissued (c)
Passenger Rail and Clean Air Bond Act of 1990	6/5/1990	$ 1,000,000	$ 582,745	$ 0	$ 0
Public Education Facilities Bond Act of 1996 (K-12)	3/26/1996	2,025,000	1,703,545	46,790	0
Public Education Facilities Bond Act of 1996 (Hi-Ed)	3/26/1996	975,000	864,830	29,630	8,700
1988 School Facilities Bond Act	11/8/1988	800,000	407,080	2,665	0
1990 School Facilities Bond Act	6/5/1990	800,000	439,750	2,990	0
1992 School Facilities Bond Act	11/3/1992	900,000	554,837	6,614	0
Safe, Clean Reliable Water Supply Act of 1996	11/5/1996	995,000	564,510	402,765	0
Safe Drinking Water Bond Act of 2000	3/7/2000	1,970,000	444,570	640,002	873,800
Safe Neighborhood Parks Bond Act of 2000	3/7/2000	2,100,000	928,620	625,015	528,805
School Building and Earthquake Bond Act of 1974	11/5/1974	40,000	29,320	n.a.	0
School Facilities Bond Act of 1988	6/7/1988	800,000	364,480	n.a.	0
School Facilities Bond Act of 1990	11/6/1990	800,000	477,720	0	0
School Facilities Bond Act of 1992	6/2/1992	1,900,000	1,148,405	17,290	0
Seismic Retrofit Bond Act of 1996	3/26/1996	2,000,000	1,661,200	209,645	0
Senior Center Bond Act of 1984	11/6/1984	50,000	5,000	n.a.	0
State School Building Lease-Purchase Bond Law of 1982	11/2/1982	500,000	14,250	n.a.	0
State School Building Lease-Purchase Bond Law of 1984	11/6/1984	450,000	83,750	n.a.	0
State School Building Lease-Purchase Bond Law of 1986	11/4/1986	800,000	241,400	n.a.	0
State, Urban, and Coastal Park Bond Act of 1976	11/2/1976	280,000	12,230	n.a.	0
Veterans' Homes Bond Act of 2000	3/7/2000	50,000	0	45,000	5,000
Voting Modernization Bond Act of 2002	3/5/2002	200,000	0	155,000	45,000
Water Conservation and Water Quality Bond Law of 1986	6/3/1986	150,000	65,520	n.a.	27,600
Water Conservation Bond Law of 1988	11/8/1988	60,000	37,010	11,500	0
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	11/5/2002	3,440,000	413,645	918,455	2,107,900
Total General Fund Bonds		$ 75,128,000	$ 32,924,082	$ 19,887,491	$ 9,777,925
ENTERPRISE FUND BONDS (Self Liquidating)					
California Water Resources Development Bond Act of 1959	11/8/1960	$ 1,750,000	$ 768,910	$ n.a.	$ 167,600
Veterans Bonds	(d)	4,510,000	1,312,825	0	605,585
Total Enterprise Fund Bonds		$ 6,260,000	$ 2,081,735	$ 0	$ 773,185
SPECIAL REVENUE FUND BONDS (Self Liquidating)					
Economic Recovery Bond Act	3/2/2004	$ 15,000,000	$ 10,896,080	$ n.a.	$ 4,103,920
Total Special Revenue Fund Bonds		$ 15,000,000	$ 10,896,080	$ 0	$ 4,103,920
TOTAL GENERAL OBLIGATION BONDS		$ 96,388,000	$ 45,901,897	$ 19,887,491	$ 14,655,030

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Represents the total amount of commercial paper authorized by Finance Committees that could be issued for new money projects. Of this amount, no more than $1.5 billion of commercial paper principal and interest can be owing at any time. Currently, there is $724,515,000 of commercial paper issued and outstanding. The bond acts marked as "n.a." are not legally permitted to utilize commercial paper, or all bonds were issued before the commercial paper program began.
(c) Treats full commercial paper authorization as issued; see footnote (b).
(d) Various dates.
SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND LEASE REVENUE BONDS
SUMMARY OF TOTAL DEBT SERVICE REQUIREMENTS
As of August 1, 2004

	Current Debt		
	Interest (a)	**Principal (b)**	**Total**
GENERAL FUND NON-SELF LIQUIDATING			
Fixed Rate	$ 22,462,772,835.47	$ 31,524,081,512.18	$ 53,986,854,347.65
Variable Rate (c)	408,890,840.86	1,400,000,000.00	1,808,890,840.86
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	1,119,382,210.63	2,081,735,000.00	3,201,117,210.63
Variable Rate	N/A	N/A	N/A
SPECIAL REVENUE FUND SELF LIQUIDATING (d)			
Fixed Rate	3,352,341,000.76	7,921,515,000.00	11,273,856,000.76
Variable Rate (c)	474,370,995.93	2,974,565,000.00	3,448,935,995.93
GENERAL FUND LEASE PURCHASE			
Fixed Rate	3,965,173,893.15	7,284,902,136.42	11,250,076,029.57
Variable Rate	N/A	N/A	N/A
General Fund and Lease Revenue Total (e)	**$ 31,782,931,776.80**	**$ 53,186,798,648.60**	**$ 84,969,730,425.40**

(a) Cummulative interest expected to be paid to maturity.
(b) Includes scheduled mandatory sinking fund payments.
(c) Variable rate interest payment estimations are based on the last interest rates paid at fiscal year-end as prepared in accordance with the Governmental Accounting Standards Board.
(d) Economic Recovery Bonds.
(e) Estimated interest included.
N/A - Not applicable/no variable rate bonds outstanding.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of August 1, 2004

Fiscal Year Ending June 30	Current Debt Interest	Principal (a)	Total	
2005	$ 1,355,612,941.03	$ 1,210,699,388.71	$ 2,566,312,329.74	(b)
2006	1,569,446,388.75	1,264,970,000.00	2,834,416,388.75	
2007	1,497,831,504.68	1,297,125,000.00	2,794,956,504.68	
2008	1,429,166,581.68	1,452,848,078.31	2,882,014,659.99	
2009	1,350,371,917.50	1,527,375,000.00	2,877,746,917.50	
2010	1,267,525,111.30	1,602,180,000.00	2,869,705,111.30	
2011	1,183,026,266.09	1,573,359,045.16	2,756,385,311.25	
2012	1,094,724,901.19	1,219,915,000.00	2,314,639,901.19	
2013	1,033,996,970.00	967,840,000.00	2,001,836,970.00	
2014	987,058,933.39	871,820,000.00	1,858,878,933.39	
2015	944,672,294.69	853,200,000.00	1,797,872,294.69	
2016	899,813,288.96	754,315,000.00	1,654,128,288.96	
2017	859,951,460.85	779,855,000.00	1,639,806,460.85	
2018	820,106,447.23	812,480,000.00	1,632,586,447.23	
2019	777,613,744.75	879,630,000.00	1,657,243,744.75	
2020	732,159,451.00	942,170,000.00	1,674,329,451.00	
2021	684,468,762.25	908,055,000.00	1,592,523,762.25	
2022	637,701,923.50	1,056,290,000.00	1,693,991,923.50	
2023	582,337,243.95	1,131,635,000.00	1,713,972,243.95	
2024	525,679,255.61	1,019,585,000.00	1,545,264,255.61	
2025	472,036,213.80	1,176,765,000.00	1,648,801,213.80	
2026	413,415,240.09	1,096,220,000.00	1,509,635,240.09	
2027	357,600,085.09	1,110,610,000.00	1,468,210,085.09	
2028	300,515,707.84	1,163,640,000.00	1,464,155,707.84	
2029	241,145,617.50	1,090,310,000.00	1,331,455,617.50	
2030	183,529,422.00	1,231,465,000.00	1,414,994,422.00	
2031	123,067,749.50	861,280,000.00	984,347,749.50	
2032	80,959,965.00	739,950,000.00	820,909,965.00	
2033	43,729,963.75	609,475,000.00	653,204,963.75	
2034	13,507,482.50	319,020,000.00	332,527,482.50	
Total	$ 22,462,772,835.47	$ 31,524,081,512.18	$ 53,986,854,347.65	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from September 1, 2004 through June 30, 2005.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of August 1, 2004

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal (b)	Total	
2005................................	$ 15,109,942.73	$ -	$ 15,109,942.73	(c)
2006................................	18,599,666.67	-	18,599,666.67	
2007................................	18,599,666.67	-	18,599,666.67	
2008................................	18,621,029.49	-	18,621,029.49	
2009................................	18,563,970.51	-	18,563,970.51	
2010................................	18,599,666.67	-	18,599,666.67	
2011................................	18,599,666.67	-	18,599,666.67	
2012................................	18,589,559.55	-	18,589,559.55	
2013................................	18,641,939.31	-	18,641,939.31	
2014................................	18,573,625.57	-	18,573,625.57	
2015................................	18,579,042.24	-	18,579,042.24	
2016................................	18,574,623.11	48,255,000.00	66,829,623.11	
2017................................	17,924,287.62	50,185,000.00	68,109,287.62	
2018................................	17,272,794.91	52,190,000.00	69,462,794.91	
2019................................	16,623,510.20	54,280,000.00	70,903,510.20	
2020................................	15,806,301.00	56,450,000.00	72,256,301.00	
2021................................	15,097,303.56	58,710,000.00	73,807,303.56	
2022................................	14,330,628.96	61,060,000.00	75,390,628.96	
2023................................	13,520,407.39	63,500,000.00	77,020,407.39	
2024................................	12,704,339.76	66,040,000.00	78,744,339.76	
2025................................	11,774,371.81	68,680,000.00	80,454,371.81	
2026................................	10,877,855.74	71,430,000.00	82,307,855.74	
2027...............................	9,945,716.66	74,285,000.00	84,230,716.66	
2028...............................	9,158,528.05	77,260,000.00	86,418,528.05	
2029...............................	7,886,428.32	110,350,000.00	118,236,428.32	
2030................................	6,440,362.96	114,760,000.00	121,200,362.96	
2031................................	4,893,188.76	119,350,000.00	124,243,188.76	
2032................................	3,312,518.48	124,125,000.00	127,437,518.48	
2033................................	1,669,897.49	129,090,000.00	130,759,897.49	
Total	$ 408,890,840.86	$ 1,400,000,000.00	$ 1,808,890,840.86	

(a) Variable rate interest payment estimations are based on the last interest rates paid at fiscal year-end as prepared in accordance with the Governmental Accounting Standards Board.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from September 1, 2004 through June 30, 2005.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of August 1, 2004

Fiscal Year Ending June 30	Current Debt Interest	Principal (a)	Total	
2005	$ 110,224,796.00	$ 114,130,000.00	$ 224,354,796.00	(b)
2006	110,433,031.00	124,300,000.00	234,733,031.00	
2007	101,422,747.26	129,360,000.00	230,782,747.26	
2008	91,600,911.04	136,430,000.00	228,030,911.04	
2009	81,812,643.75	135,340,000.00	217,152,643.75	
2010	72,539,719.05	118,190,000.00	190,729,719.05	
2011	65,209,997.02	86,480,000.00	151,689,997.02	
2012	60,775,254.75	90,895,000.00	151,670,254.75	
2013	56,806,861.87	83,395,000.00	140,201,861.87	
2014	52,774,188.50	97,720,000.00	150,494,188.50	
2015	47,917,828.05	114,260,000.00	162,177,828.05	
2016	42,123,571.90	121,930,000.00	164,053,571.90	
2017	35,895,849.29	129,925,000.00	165,820,849.29	
2018	29,865,583.99	105,035,000.00	134,900,583.99	
2019	24,519,579.11	100,850,000.00	125,369,579.11	
2020	20,506,283.61	52,590,000.00	73,096,283.61	
2021	17,704,637.50	45,615,000.00	63,319,637.50	
2022	15,228,971.25	41,240,000.00	56,468,971.25	
2023	13,480,617.01	21,730,000.00	35,210,617.01	
2024	12,264,105.52	23,025,000.00	35,289,105.52	
2025	10,949,341.91	25,350,000.00	36,299,341.91	
2026	9,740,973.75	18,805,000.00	28,545,973.75	
2027	8,650,135.00	20,645,000.00	29,295,135.00	
2028	7,687,360.00	14,215,000.00	21,902,360.00	
2029	6,741,760.00	19,955,000.00	26,696,760.00	
2030	5,404,392.50	28,100,000.00	33,504,392.50	
2031	3,892,867.50	25,920,000.00	29,812,867.50	
2032	2,395,225.00	27,375,000.00	29,770,225.00	
2033	812,977.50	28,930,000.00	29,742,977.50	
Total	$ 1,119,382,210.63	$ 2,081,735,000.00	$ 3,201,117,210.63	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from September 1, 2004 through June 30, 2005.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of August 1, 2004

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2005	$ 242,833,275.24	$ -	$ 242,833,275.24	(b)
2006	376,712,950.00	339,650,000.00	716,362,950.00	
2007	364,588,200.00	359,070,000.00	723,658,200.00	
2008	348,760,825.00	393,925,000.00	742,685,825.00	
2009	329,605,575.00	449,920,000.00	779,525,575.00	
2010	307,090,250.00	506,870,000.00	813,960,250.00	
2011	281,471,212.50	549,060,000.00	830,531,212.50	
2012	253,238,185.00	289,375,000.00	542,613,185.00	
2013	230,585,727.50	612,520,000.00	843,105,727.50	
2014	197,947,128.75	663,665,000.00	861,612,128.75	
2015	162,363,069.27	718,195,000.00	880,558,069.27	
2016	124,528,685.00	776,040,000.00	900,568,685.00	
2017	85,666,305.00	1,009,635,000.00	1,095,301,305.00	
2018	40,157,962.50	986,870,000.00	1,027,027,962.50	
2019	6,392,275.00	264,720,000.00	271,112,275.00	
2020	88,750.00	-	88,750.00	
2021	88,750.00	-	88,750.00	
2022	88,750.00	-	88,750.00	
2023	88,750.00	-	88,750.00	
2024	44,375.00	2,000,000.00	2,044,375.00	
Total	$ 3,352,341,000.76	$ 7,921,515,000.00	$ 11,273,856,000.76	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from September 1, 2004 through June 30, 2005.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Variable Rate
As of August 1, 2004

Fiscal Year Ending June 30	Current Debt Interest (a)	Current Debt Principal (b)	Current Debt Total	
2005	$ 25,865,097.20	$ -	$ 25,865,097.20	(c)
2006	31,200,389.50	-	31,200,389.50	
2007	31,200,389.50	-	31,200,389.50	
2008	31,335,616.88	-	31,335,616.88	
2009	31,065,162.12	-	31,065,162.12	
2010	31,200,389.50	-	31,200,389.50	
2011	31,200,389.50	-	31,200,389.50	
2012	31,250,369.91	-	31,250,369.91	
2013	31,321,370.13	-	31,321,370.13	
2014	31,114,908.98	-	31,114,908.98	
2015	31,114,908.98	-	31,114,908.98	
2016	31,250,369.91	-	31,250,369.91	
2017	31,150,409.09	-	31,150,409.09	
2018	30,286,441.73	215,115,000.00	245,401,441.73	
2019	24,853,046.33	721,060,000.00	745,913,046.33	
2020	14,274,509.70	1,018,150,000.00	1,032,424,509.70	
2021	4,372,081.98	788,365,000.00	792,737,081.98	
2022	255,326.84	226,625,000.00	226,880,326.84	
2023	55,275.00	-	55,275.00	
2024	4,543.15	5,250,000.00	5,254,543.15	
Total	$ 474,370,995.93	$ 2,974,565,000.00	$ 3,448,935,995.93	

(a) Variable rate interest payment estimations are based on the last interest rates paid at fiscal year-end as prepared in accordance with the Governmental Accounting Standards Board.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from September 1, 2004 through June 30, 2005.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR GENERAL FUND LEASE REVENUE BONDS
As of August 1, 2004

Fiscal Year Ending June 30	Current Debt Interest	Principal (a)	Total
2005	$ 372,210,255.30	$ 351,474,507.20	$ 723,684,762.50
2006	363,548,715.18	393,497,554.60	757,046,269.78
2007	349,283,358.09	347,313,920.44	696,597,278.53
2008	329,138,078.35	356,591,787.98	685,729,866.33
2009	315,396,600.44	379,487,732.44	694,884,332.88
2010	290,804,782.24	369,051,633.76	659,856,416.00
2011	260,923,032.68	382,675,000.00	643,598,032.68
2012	241,271,875.56	367,050,000.00	608,321,875.56
2013	222,212,102.70	376,960,000.00	599,172,102.70
2014	202,594,393.34	381,295,000.00	583,889,393.34
2015	182,318,890.34	400,910,000.00	583,228,890.34
2016	161,167,210.16	383,550,000.00	544,717,210.16
2017	140,435,686.17	390,075,000.00	530,510,686.17
2018	119,871,711.90	406,305,000.00	526,176,711.90
2019	98,926,877.53	367,065,000.00	465,991,877.53
2020	79,668,423.82	339,070,000.00	418,738,423.82
2021	63,167,666.99	277,330,000.00	340,497,666.99
2022	48,587,187.49	249,665,000.00	298,252,187.49
2023	37,138,507.87	197,165,000.00	234,303,507.87
2024	27,893,783.25	108,700,000.00	136,593,783.25
2025	22,294,692.50	114,300,000.00	136,594,692.50
2026	16,882,800.00	103,240,000.00	120,122,800.00
2027	11,573,442.50	108,515,000.00	120,088,442.50
2028	6,057,768.75	98,375,000.00	104,432,768.75
2029	1,806,050.00	35,240,000.00	37,046,050.00
Total	$ 3,965,173,893.15	$ 7,284,902,136.42	$ 11,250,076,029.57

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from September 1, 2004 through June 30, 2005.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-PURCHASE FINANCING
OUTSTANDING ISSUES
DRAFT
August 1, 2004

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	542,835,000
Department of the Youth Authority		16,975,000
Department of Corrections *		2,532,119,754
Energy Efficiency Program (Various State Agencies) (a)		71,280,000
The Regents of The University of California * (b)		1,119,122,382
Trustees of The California State University		576,470,000
Various State Office Buildings		1,579,440,000
Total State Public Works Board Issues	**$**	**6,438,242,136**
Total Other State Building Lease Purchase Issues (c)	**$**	**846,660,000**
Total General Fund Supported Issues	**$**	**7,284,902,136**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority Certificates of Participation (State of California Department of Transportation) *	$	62,967,452
San Bernardino Joint Powers Financing Authority (State of California Department of Transportation)		53,465,000
San Francisco State Building Authority (State of California Department of General Services Lease) (d)		38,685,000
Total Special Fund Supported Issues	**$**	**155,117,452**
TOTAL	**$**	**7,440,019,589**

* Includes the initial value of capital appreciation bonds rather than the accreted value.
(a) This program is self-liquidating based on energy cost savings.
(b) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds and are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.
(c) Includes $174,625,000 Sacramento City Financing Authority Lease Revenue Bonds State of California - Cal EPA Building, 1998 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.
(d) The sole tenant is the California Public Utilities Commission.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS AND CONDUIT FINANCING As of June 30, 2004

Issuing Agency	Outstanding[(a)(b)]
State Programs Financing:	
California Department of Transportation - GARVEE	$ 614,850,000
California Infrastructure and Economic Development Bank [(c)]	1,511,805,000
California Power Authority	26,105,000
California State University	1,052,173,000
Department of Water Resources - Central Valley Project	2,257,450,000
Department of Water Resources - Power Supply Program	6,833,500,000
The Regents of the University of California	4,371,455,000
Housing Financing:	
California Housing Finance Agency	7,888,646,468
Veterans Revenue Debenture	492,810,000
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	53,610,000
California Educational Facilities Authority	3,089,000,851
California Health Facilities Financing Authority	6,012,086,899
California Infrastructure and Economic Development Bank [(c)]	1,909,435,307
California Pollution Control Financing Authority	3,965,667,284
California School Finance Authority	45,000
California Student Loan Authority	88,460,000
TOTAL	**$ 40,167,099,809**

(a) Totals for California State University, Department of Water Resources-Central Valley Project, and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include $5.6 Billion of "tobacco settlement revenue bonds" issued by Golden State Tobacco Securitization Corporation.

(c) Does not include $6 billion of "rate reduction bonds" issued by special purpose trusts for the benefit of four investor-owned electric utility companies representing interests in certain electric rate surcharges.

EXHIBIT 1

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

June 2004

STEVE WESTLY
California State Controller

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STEVE WESTLY
California State Controller

July 9, 2004

Users of the Statement of General Fund Cash Receipts and Disbursements

Attached are the Statements of General Fund Cash Receipts and Disbursements for the period July 1, 2003 through June 30, 2004. These statements reflect the State of California's General Fund cash position and compare actual receipts and disbursements for the 2003-04 fiscal year to cash flow estimates prepared by the Department of Finance for the 2004-05 May Revision as well as the 2003-04 Budget Act. These statements are prepared in compliance with Government Code section 12461.1, as well as Item 0840-001-0001, Provision 10, of the 2003-04 Budget Act, using records compiled by the State Controller.

Attachment A compares actual receipts and disbursements to date for the 2003-04 fiscal year to cash flow estimates published in the 2004-05 May Revision.

Attachment B compares actual receipts and disbursements to date for the 2003-04 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2003-04 Budget Act. Prior year actual amounts are also displayed for comparative purposes.

The total estimated receipts for the 2003-04 fiscal year in May Revision cash flow reflect an expected increase of $6.1 billion over the Budget Act estimate. The same comparison for estimated disbursements reflect an expected increase of $7.3 billion. The cash flow estimates in Attachments A and B are predicated on projections and assumptions made by the Department of Finance based on the May Revision and the Budget Act, respectively.

These statements are also available on the Internet at the State Controller's website at http://www.sco.ca.gov/ard/state/index.shtml under the category Monthly Statement of General Fund Cash Receipts and Disbursements.

Any questions concerning this report may be directed to Vincent P. Brown, Chief Operating Officer, at (916) 552-8080.

Sincerely,

Steve Westly

STEVE WESTLY
California State Controller

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 ♦ P.O. Box 942850, Sacramento, CA 94250
PHONE: (916) 445-2636 ♦ Fax: (916) 445-6379 ♦ Web Address: www.sco.ca.gov♦ E-Mail: steve@sco.ca.gov

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STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2004-05 May Revision Estimates
(Amounts in thousands)
Attachment A

	July 1 through June 30					
	2004				2003	
	Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	Actual Over or (Under) Estimate %	Actual	
GENERAL FUND BEGINNING CASH BALANCE	**$ 438,110**	**$ 438,110**	**$ -**	**-**	**$ -**	
Add Receipts:						
Revenues	75,482,847	86,720,809	(11,237,962)	(13.0)	68,629,213	
Nonrevenues	15,156,971	3,861,457	11,295,514	292.5	9,957,806	
Total Receipts	90,639,818	90,582,266	57,552	0.1	78,587,019	
Less Disbursements:						
State Operations	17,798,511	17,412,710	385,801	2.2	18,671,711	(a)
Local Assistance	58,838,048	59,601,518	(763,470)	(1.3)	59,303,244	(a)
Capital Outlay	385,372	322,212	63,160	19.6	160,138	
Nongovernmental	2,552,638	4,866,997	(2,314,359)	(47.6)	530,836	
Total Disbursements	79,574,569	82,203,437	(2,628,868)	(3.2)	78,665,929	
Receipts Over / (Under) Disbursements	11,065,249	8,378,829	2,686,420	32.1	(78,910)	
Net Increase / (Decrease) in Temporary Loans	(10,965,000)	(8,816,939)	(2,148,061)	-	517,020	
GENERAL FUND ENDING CASH BALANCE	**538,359**	**-**	**538,359**	**-**	**438,110**	
Special Fund for Economic Uncertainties	2,216,023	67,962	2,148,061	3,160.7	2,524,519	
TOTAL CASH	**$ 2,754,382**	**$ 67,962**	**$ 2,686,420**	**3,952.8**	**$ 2,962,629**	

BORROWABLE RESOURCES						
Available Borrowable Resources	$ 9,951,264	$ 10,955,563	$ (1,004,299)	(9.2)	$ 21,366,521	
Outstanding Loans	-	2,148,061	(2,148,061)	(100.0)	10,965,000	(a) (c)
Unused Borrowable Resources	$ 9,951,264	$ 8,807,502	$ 1,143,762	13.0	$ 10,401,521	

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) The General Cash Revolving Fund (GCRF) disbursements and loans have been combined with the General Fund for reporting purposes because they represent major General Fund type activities. Amounts that were paid by the GCRF in February through May 2003 were reimbursed by the General Fund from Revenue Anticipation Warrant proceeds in June 2003.
(b) A Statement of Estimated Cash Flow for the 2003-04 fiscal year prepared by the Department of Finance for the May Revision to 2004-05 Governor's Budget. Any projections or estimates are set forth as such and not as representations of fact.
(c) Cumulative loan balance is comprised of $11.0 billion in external borrowing of Revenue Anticipation Warrants
(d) Negative balances are the result of repayments received that are greater than disbursements made.
(e) Reclassified from a Non-Governmental Cost Fund.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2004				2003
	2004	2003	Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 24,382	$ 19,767	$ 311,872	$ 307,000	$ 4,872	1.6	$ 289,428
Corporation Tax	1,487,617	1,204,101	7,964,152	7,906,809	57,343	0.7	6,509,506
Cigarette Tax	9,148	6,249	116,903	115,000	1,903	1.7	121,909
Estate, Inheritance, and Gift Tax	46,281	51,239	574,510	572,000	2,510	0.4	932,005
Insurance Companies Tax	424,359	379,241	2,113,933	2,085,000	28,933	1.4	1,870,608
Personal Income Tax	3,834,892	3,359,978	36,752,037	36,783,000	(30,963)	(0.1)	32,464,931
Retail Sales and Use Taxes	2,821,139	2,182,405	23,699,237	23,703,000	(3,763)	-	22,265,071
Pooled Money Investment Interest	14,684	21,289	120,126	109,000	11,126	10.2	211,318
Not Otherwise Classified	131,782	61,401	3,830,077	3,886,000	(55,923)	(1.4)	3,964,437
Economic Recovery Bond Proceeds	-	-	-	11,254,000	(11,254,000)	(100.0)	-
Total Revenues	**8,794,284**	**7,285,670**	**75,482,847**	**86,720,809**	**(11,237,962)**	**(13.0)**	**68,629,213**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	2,524,497	2,524,497	-	-	-
Transfers from Other Funds	173,773	2,343,026	895,577	923,371	(27,794)	(3.0)	3,272,198
Transfers from Economic Recovery Fund	2,914,720	-	11,254,000	-	11,254,000	-	-
Transfers from Electric Power Fund	-	-	-	-	-	-	6,094,067
Miscellaneous	26,593	50,053	482,897	413,589	69,308	16.8	591,541
Total Nonrevenues	**3,115,086**	**2,393,079**	**15,156,971**	**3,861,457**	**11,295,514**	**292.5**	**9,957,806**
Total Receipts	**$ 11,909,370**	**$ 9,678,749**	**$ 90,639,818**	**$ 90,582,266**	**$ 57,552**	**0.1**	**$ 78,587,019**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June			July 1 through June 30				
				2004				2003
	2004	2003		Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (d)								
Legislative/Judicial/Executive	$ 66,046	$ 30,463	(a)	$ 1,261,202	$ 1,050,023	$ 211,179	20.1	$ 1,229,072
State and Consumer Services	27,117	35,962		468,069	467,258	811	0.2	460,492
Business, Transportation and Housing	(1)	(396)		5,719	14,867	(9,148)	(61.5)	7,048
Technology, Trade and Commerce	450	3,149		7,521	6,183	1,338	21.6	29,281
Resources	17,704	592		714,746	691,462	23,284	3.4	831,227
Environmental Protection Agency	5,793	21,273		77,648	70,860	6,788	9.6	160,918
Health and Human Services:								
Health Services	(2,047)	(10,249)		229,969	237,802	(7,833)	(3.3)	231,038
Mental Health Hospitals	38,894	35,772		524,381	585,605	(61,224)	(10.5)	523,091
Other Health and Human Services	39,037	2,520		632,042	564,513	67,529	12.0	607,942
Education:								
University of California	9,531	15,922	(a)	2,919,292	2,863,180	56,112	2.0	3,127,953
State Universities and Colleges	255,146	285,246		2,615,895	2,621,776	(5,881)	(0.2)	2,708,162
Other Education	11,432	11,438		153,346	148,836	4,510	3.0	182,656
Corrections and Youth Authority	460,556	404,412	(a)	5,042,508	5,092,363	(49,855)	(1.0)	5,499,497
General Government	87,263	78,374	(a)	1,149,718	1,026,132	123,586	12.0	1,112,680
Public Employees Retirement System	(117,454)	(202,598)		(146,560)	(140,656)	(5,904)	-	(79,398)
Debt Service	109,080	153,552	(a)	1,860,442	1,835,065	25,377	1.4	1,727,045
Interest on Loans	270,682	199,345		282,573	277,441	5,132	1.8	313,007
Total State Operations	**1,279,229**	**1,064,777**		**17,798,511**	**17,412,710**	**385,801**	**2.2**	**18,671,711**
LOCAL ASSISTANCE (d)								
Public Schools - K-12	305,434	208,693	(a)	25,678,841	26,814,274	(1,135,433)	(4.2)	25,276,094
Community Colleges	120,988	243,788	(a)	2,280,341	2,264,468	15,873	0.7	2,747,690
Contributions to State Teachers' Retirement System	-	-		509,763	509,763	-	-	975,522
Other Education	(13,990)	(22,367)	(a)	2,135,899	2,192,274	(56,375)	(2.6)	2,299,400
Corrections and Youth Authority	9,551	4,923		144,739	70,823	73,916	104.4	155,916
Dept. of Alcohol and Drug Program	13,024	9,605		209,868	225,680	(15,812)	(7.0)	247,443
Dept. of Health Services:								
Medical Assistance Program	922,481	340,510	(a)	10,852,486	10,802,837	49,649	0.5	10,199,485
Other Health Services	84,929	26,064		446,401	403,407	42,994	10.7	451,186
Dept. of Developmental Services	18,764	13,884	(a)	1,602,228	1,590,914	11,314	0.7	1,351,160
Dept. of Mental Health	(51,386)	(16,116)	(a)	383,796	309,756	74,040	23.9	391,581
Dept. of Social Services:								
SSI/SSP/IHSS	346,654	155,669	(a)	4,219,940	4,533,058	(313,118)	(6.9)	3,956,672
CalWORKs	78,678	46,137	(a)	3,035,140	2,937,994	97,146	3.3	2,575,057
Other Social Services	72,007	156,431	(a)	1,074,323	1,084,925	(10,602)	(1.0)	1,339,835
Tax Relief	485,913	337,356	(a)	3,654,364	3,326,767	327,597	9.8	4,579,773
School Facility Aid Program	-	-		13,953	13,535	418	3.1	15,566
Other Local Assistance	91,665	113,981	(a)	2,595,966	2,521,043	74,923	3.0	2,740,864
Total Local Assistance	**2,484,712**	**1,618,558**		**58,838,048**	**59,601,518**	**(763,470)**	**(1.3)**	**59,303,244**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30 2004				2003
	2004	2003	Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**82,832**	**11,984**	**385,372**	**322,212**	**63,160**	**19.6**	**160,138**
NONGOVERNMENTAL (d)							
Transfer to Special Fund for Economic Uncertainties	-	-	2,216,000	2,216,000	-	-	-
Transfer to Other Funds	120,627	8,914	431,270	2,582,648	(2,151,378)	(83.3)	176,603
Transfer to Revolving Fund	(34,111)	18,988	(69,515)	-	(69,515)	-	88,279
Advance:							
State-County Property Tax Administration Program	-	(52,093)	-	-	-	-	(42,416)
Social Welfare Federal Fund	(14,900)	(18,465)	(45,093)	59,000	(104,093)	(176.4)	75,755
Tax Relief and Refund Account	(48,000)	(32,100)	-	-	-	-	-
Counties for Social Welfare	500,435	480,459	19,976	9,349	10,627	113.7	232,615
Total Nongovernmental	**524,051**	**405,703**	**2,552,638**	**4,866,997**	**(2,314,359)**	**(47.6)**	**530,836**
Total Disbursements	**4,370,824**	**$ 3,101,022**	**$ 79,574,569**	**$ 82,203,437**	**$ (2,628,868)**	**(3.2)**	**$ 78,665,929**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	-	$ (2,524,519) (a)	$ -	$ 2,148,061	$ (2,148,061)	(100.0)	$ (2,524,519)
Other Internal Sources	-	(8,475,481) (a)	-	-	-	-	(423,461)
2002 Revenue Anticipation Warrants	-	-	-	-	-	-	(7,500,000)
Revenue Anticipation Notes	(3,000,000)	(6,873,700)	-	-	-	-	-
2003 Revenue Anticipation Warrants	(10,965,000)	10,965,000	(10,965,000)	(10,965,000)	-	-	10,965,000
Net Increase / (Decrease) Loans	**(13,965,000)**	**$ (6,908,700)**	**$ (10,965,000)**	**$ (8,816,939)**	**$ (2,148,061)**	**-**	**$ 517,020**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2004	2003	2004	2003
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 311,872	$ 289,428	$ -	$ -
Corporation Tax	7,964,152	6,509,506	9	24
Cigarette Tax	116,903	121,909	953,758	977,417
Estate, Inheritance, and Gift Tax	574,510	932,005	-	-
Insurance Companies Tax	2,113,933	1,870,608	-	-
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	2,844,305	2,784,104
Diesel & Liquid Petroleum Gas	-	-	512,981	469,822
Jet Fuel Tax	-	-	2,305	2,397
Vehicle License Fees	-	-	2,062,115	1,880,237
Motor Vehicle Registration and Other Fees	-	-	2,403,587	2,004,648
Personal Income Tax	36,752,037	32,464,931	4,358	4,156
Retail Sales and Use Taxes	23,699,237	22,265,071	5,037,918	4,738,130
Pooled Money Investment Interest	120,126	211,318	119	522
Total Major Taxes, Licenses, and Investment Income	**71,652,770**	**64,664,776**	**13,821,455**	**12,861,457**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	2,273	2,424	40,424	38,266
Electrical Energy Tax	-	-	535,169	503,639
Private Rail Car Tax	6,637	6,416	-	-
Penalties on Traffic Violations	-	-	85,433	84,032
Health Care Receipts	12,905	13,646	-	-
Revenues from State Lands	107,913	74,246	7,900	9,218
Abandoned Property	642,602	237,827	-	-
Trial Court Revenues	44,941	288	1,127,079 (e)	-
Horse Racing Fees	2,452	3,297	38,337	38,472
Miscellaneous	3,010,354	3,626,293	5,980,138	5,576,919
Not Otherwise Classified	**3,830,077**	**3,964,437**	**7,814,480**	**6,250,546**
Total Revenues, All Governmental Cost Funds	**$ 75,482,847**	**$ 68,629,213**	**$ 21,635,935**	**$ 19,112,003**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2003-04 Budget Act Estimates
(Amounts in thousands)
Attachment B

	July 1 through June 30					
	2004				2003	
	Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	%	Actual	
GENERAL FUND BEGINNING CASH BALANCE	**$ 438,110**	**$ 438,110**	**$ -**	**-**	**$ -**	
Add Receipts:						
Revenues	75,482,847	82,377,400	(6,894,553)	(8.4)	68,629,213	
Nonrevenues	15,156,971	2,118,022	13,038,949	615.6	9,957,806	
Total Receipts	90,639,818	84,495,422	6,144,396	7.3	78,587,019	
Less Disbursements:						
State Operations	17,798,511	17,319,878	478,633	2.8	18,671,711	(a)
Local Assistance	58,838,048	56,703,396	2,134,652	3.8	59,303,244	(a)
Capital Outlay	385,372	77,812	307,560	395.3	160,138	
Nongovernmental	2,552,638	768,027	1,784,611	232.4	530,836	
Total Disbursements	79,574,569	74,869,113	4,705,456	6.3	78,665,929	
Receipts Over / (Under) Disbursements	11,065,249	9,626,309	1,438,940	14.9	(78,910)	
Net Increase / (Decrease) in Temporary Loans	(10,965,000)	(10,064,419)	(900,581)	-	517,020	
GENERAL FUND ENDING CASH BALANCE	**538,359**	**-**	**538,359**	**-**	**438,110**	
Special Fund for Economic Uncertainties	2,216,023	1,315,719	900,304	68.4	2,524,519	
TOTAL CASH	**$ 2,754,382**	**$ 1,315,719**	**$ 1,438,663**	**109.3**	**$ 2,962,629**	
BORROWABLE RESOURCES						
Available Borrowable Resources	$ 9,951,264	$ 8,747,866	$ 1,203,398	13.8	$ 21,366,521	
Outstanding Loans	-	900,581	(900,581)	(100.0)	10,965,000	(a) (c)
Unused Borrowable Resources	$ 9,951,264	$ 7,847,285	$ 2,103,979	26.8	$ 10,401,521	

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) The General Cash Revolving Fund (GCRF) disbursements and loans have been combined with the General Fund for reporting purposes because they represent major General Fund type activities. Amounts that were paid by the GCRF in February through May 2003 were reimbursed by the General Fund from Revenue Anticipation Warrant proceeds in June 2003.
(b) A Statement of Estimated Cash Flow for the 2003-04 fiscal year prepared by the Department of Finance for the Budget Act of 2003. Any projections or estimates are set forth as such and not as representations of fact.
(c) Cumulative loan balance is comprised of $11.0 billion in external borrowing of Revenue Anticipation Warrants.
(d) Negative balances are the result of repayments received that are greater than disbursements made.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30 2004				2003
	2004	2003	Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 24,382	$ 19,767	$ 311,872	$ 288,000	$ 23,872	8.3	$ 289,428
Corporation Tax	1,487,617	1,204,101	7,964,152	7,035,000	929,152	13.2	6,509,506
Cigarette Tax	9,148	6,249	116,903	114,000	2,903	2.5	121,909
Estate, Inheritance, and Gift Tax	46,281	51,239	574,510	638,000	(63,490)	(10.0)	932,005
Insurance Companies Tax	424,359	379,241	2,113,933	2,068,000	45,933	2.2	1,870,608
Personal Income Tax	3,834,892	3,359,978	36,752,037	33,646,000	3,106,037	9.2	32,464,931
Retail Sales and Use Taxes	2,821,139	2,182,405	23,699,237	23,409,000	290,237	1.2	22,265,071
Pooled Money Investment Interest	14,684	21,289	120,126	218,000	(97,874)	(44.9)	211,318
Not Otherwise Classified	131,782	61,401	3,830,077	4,286,000	(455,923)	(10.6)	3,964,437
Deficit Financing Bond Proceeds	-	-	-	10,675,400	(10,675,400)	(100.0)	-
Total Revenues	**8,794,284**	**7,285,670**	**75,482,847**	**82,377,400**	**(6,894,553)**	**(8.4)**	**68,629,213**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	2,524,497	308,219	2,216,278	719.1	-
Transfers from Other Funds	173,773	2,343,026	895,577	1,394,209	(498,632)	(35.8)	3,272,198
Transfers from Economic Recovery Fund	2,914,720	-	11,254,000	-	11,254,000	-	-
Transfers from Electric Power Fund	-	-	-	-	-	-	6,094,067
Miscellaneous	26,593	50,053	482,897	415,594	67,303	16.2	591,541
Total Nonrevenues	**3,115,086**	**2,393,079**	**15,156,971**	**2,118,022**	**13,038,949**	**615.6**	**9,957,806**
Total Receipts	**$ 11,909,370**	**$ 9,678,749**	**$ 90,639,818**	**$ 84,495,422**	**$ 6,144,396**	**7.3**	**$ 78,587,019**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June			July 1 through June 30				
				2004				2003
	2004	2003		Actual	Estimate (b)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (d)								
Legislative/Judicial/Executive	$ 66,046	$ 30,463	(a)	$ 1,261,202	$ 1,005,481	$ 255,721	25.4	$ 1,229,072
State and Consumer Services	27,117	35,962		468,069	440,824	27,245	6.2	460,492
Business, Transportation and Housing	(1)	(396)		5,719	5,323	396	7.4	7,048
Technology, Trade and Commerce	450	3,149		7,521	6,984	537	7.7	29,281
Resources	17,704	592		714,746	591,930	122,816	20.7	831,227
Environmental Protection Agency	5,793	21,273		77,648	76,589	1,059	1.4	160,918
Health and Human Services:								
Health Services	(2,047)	(10,249)		229,969	258,380	(28,411)	(11.0)	231,038
Mental Health Hospitals	38,894	35,772		524,381	549,900	(25,519)	(4.6)	523,091
Other Health and Human Services	39,037	2,520		632,042	572,041	60,001	10.5	607,942
Education:								
University of California	9,531	15,922	(a)	2,919,292	2,894,770	24,522	0.8	3,127,953
State Universities and Colleges	255,146	285,246		2,615,895	2,576,395	39,500	1.5	2,708,162
Other Education	11,432	11,438		153,346	147,889	5,457	3.7	182,656
Corrections and Youth Authority	460,556	404,412	(a)	5,042,508	5,279,381	(236,873)	(4.5)	5,499,497
General Government	87,263	78,374	(a)	1,149,718	223,868	925,850	413.6	1,112,680
Public Employees Retirement System	(117,454)	(202,598)		(146,560)	467,565	(614,125)	(131.3)	(79,398)
Debt Service	109,080	153,552	(a)	1,860,442	1,952,006	(91,564)	(4.7)	1,727,045
Interest on Loans	270,682	199,345		282,573	270,552	12,021	4.4	313,007
Total State Operations	**1,279,229**	**1,064,777**		**17,798,511**	**17,319,878**	**478,633**	**2.8**	**18,671,711**
LOCAL ASSISTANCE (d)								
Public Schools - K-12	305,434	208,693	(a)	25,678,841	26,788,428	(1,109,587)	(4.1)	25,276,094
Community Colleges	120,988	243,788	(a)	2,280,341	2,252,433	27,908	1.2	2,747,690
Contributions to State Teachers' Retirement System	-	-		509,763	509,763	-	-	975,522
Other Education	(13,990)	(22,367)	(a)	2,135,899	2,144,211	(8,312)	(0.4)	2,299,400
Corrections and Youth Authority	9,551	4,923		144,739	152,361	(7,622)	(5.0)	155,916
Dept. of Alcohol and Drug Program	13,024	9,605		209,868	229,707	(19,839)	(8.6)	247,443
Dept. of Health Services:								
Medical Assistance Program	922,481	340,510	(a)	10,852,486	11,352,172	(499,686)	(4.4)	10,199,485
Other Health Services	84,929	26,064		446,401	464,198	(17,797)	(3.8)	451,186
Dept. of Developmental Services	18,764	13,884	(a)	1,602,228	1,917,701	(315,473)	(16.5)	1,351,160
Dept. of Mental Health	(51,386)	(16,116)	(a)	383,796	322,822	60,974	18.9	391,581
Dept. of Social Services:								
SSI/SSP/IHSS	346,654	155,669	(a)	4,219,940	4,320,803	(100,863)	(2.3)	3,956,672
CalWORKs	78,678	46,137	(a)	3,035,140	2,633,952	401,188	15.2	2,575,057
Other Social Services	72,007	156,431	(a)	1,074,323	1,251,178	(176,855)	(14.1)	1,339,835
Tax Relief	485,913	337,356	(a)	3,654,364	716,661	2,937,703	409.9	4,579,773
School Facility Aid Program	-	-		13,953	11,851	2,102	17.7	15,566
Other Local Assistance	91,665	113,981	(a)	2,595,966	1,635,155	960,811	58.8	2,740,864
Total Local Assistance	**2,484,712**	**1,618,558**		**58,838,048**	**56,703,396**	**2,134,652**	**3.8**	**59,303,244**

See notes on page B1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2004				2003
					Actual Over or (Under) Estimate		
	2004	2003	Actual	Estimate (b)	Amount	%	Actual
CAPITAL OUTLAY	**82,832**	**11,984**	**385,372**	**77,812**	**307,560**	**395.3**	**160,138**
NONGOVERNMENTAL (d)							
Transfer to Special Fund for Economic Uncertainties	-	-	2,216,000	-	2,216,000	-	-
Transfer to Other Funds	120,627	8,914	431,270	205,748	225,522	109.6	176,603
Transfer to Revolving Fund	(34,111)	18,988	(69,515)	-	(69,515)	-	88,279
Advance:							
State-County Property Tax Administration Program	-	(52,093)	-	-	-	-	(42,416)
Social Welfare Federal Fund	(14,900)	(18,465)	(45,093)	562,279	(607,372)	(108.0)	75,755
Tax Relief and Refund Account	(48,000)	(32,100)	-	-	-	-	-
Counties for Social Welfare	500,435	480,459	19,976	-	19,976	-	232,615
Total Nongovernmental	**524,051**	**405,703**	**2,552,638**	**768,027**	**1,784,611**	**232.4**	**530,836**
Total Disbursements	**4,370,824**	**$ 3,101,022**	**$ 79,574,569**	**$ 74,869,113**	**$ 4,705,456**	**6.3**	**$ 78,665,929**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	-	$ (2,524,519) (a)	$ -	$ 900,581	$ (900,581)	(100.0)	$ (2,524,519)
Other Internal Sources	-	(8,475,481) (a)	-	-	-	-	(423,461)
2002 Revenue Anticipation Warrants	-	-	-	-	-	-	(7,500,000)
Revenue Anticipation Notes	(3,000,000)	(6,873,700)	-	-	-	-	-
2003 Revenue Anticipation Warrants	(10,965,000)	10,965,000	(10,965,000)	(10,965,000)	-	-	10,965,000
Net Increase / (Decrease) Loans	**(13,965,000)**	**$ (6,908,700)**	**$ (10,965,000)**	**$ (10,064,419)**	**$ (900,581)**	**-**	**$ 517,020**

See notes on page B1.

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STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

July 2004

STEVE WESTLY
California State Controller

STEVE WESTLY
California State Controller

August 10, 2004

Users of the Statement of General Fund Cash Receipts and Disbursements

Attached is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2004 through July 31, 2004. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2004-05 fiscal year to cash flow estimates prepared by the Department of Finance for the 2004-05 May Revision. The statement is prepared in compliance with Government Code section 12461.1, using records compiled by the State Controller.

These statements are also available on the Internet at the State Controller's website at http://www.sco.ca.gov/ard/state/index.shtml under the category Monthly Statement of General Fund Cash Receipts and Disbursements.

Any questions concerning this report may be directed to Vincent P. Brown, Chief Operating Officer, at (916) 552-8080.

Sincerely,

Steve Westly

STEVE WESTLY
California State Controller

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 ♦ P.O. Box 942850, Sacramento, CA 94250
PHONE: (916) 445-2636 ♦ Fax: (916) 445-6379 ♦ Web Address: www.sco.ca.gov♦ E-Mail: steve@sco.ca.gov

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STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2004-05 May Revision Estimates
(Amounts in thousands)

	July 1 through July 31				
	2004				2003
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 538,359**	**$ -**	**$ 538,359**	**-**	**$ 438,110**
Add Receipts:					
Revenues	4,050,619	3,590,000	460,619	12.8	3,711,159
Nonrevenues	73,457	41,309	32,148	77.8	19,926
Total Receipts	4,124,076	3,631,309	492,767	13.6	3,731,085
Less Disbursements:					
State Operations	1,705,028	1,535,851	169,177	11.0	1,643,631
Local Assistance	6,160,295	6,590,918	(430,623)	(6.5)	6,468,515
Capital Outlay	9,696	75,001	(65,305)	(87.1)	2,671
Payment Offsets from Deficit Recovery	-	(167,666)	167,666	-	-
Nongovernmental	(43,662)	76,917	(120,579)	(156.8)	2,603
Total Disbursements	7,831,357	8,111,021	(279,664)	(3.4)	8,117,420
Receipts Over / (Under) Disbursements	(3,707,281)	(4,479,712)	772,431	-	(4,386,335)
Net Increase / (Decrease) in Temporary Loans	3,168,922	4,479,712	(1,310,790)	(29.3)	3,948,225
GENERAL FUND ENDING CASH BALANCE	**-**	**-**	**-**	**-**	**-**
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**	**-**	**$ -**

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 10,946,941	$ 10,557,989	$ 388,952	3.7	$ 21,614,038
Outstanding Loans (b)	3,168,922	6,627,773	(3,458,851)	(52.2)	14,913,225
Unused Borrowable Resources	$ 7,778,019	$ 3,930,216	$ 3,847,803	97.9	$ 6,700,813

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2004-05 fiscal year prepared by the Department of Finance for the May Revision to the 2004-05 Governor's Budget. Any projections or estimates are set forth as such and not as representations of fact.
(b) Cumulative loan balance is comprised of $3.2 billion in internal borrowing.
(c) Negative balances are the result of repayments received that are greater than disbursements made.
(d) Includes Technology, Trade and Commerce that was previously displayed separately and abolished on January 1, 2004.
(e) Includes School Facility Aid Program that was previously displayed separately.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2004				2003
	2004	2003	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 30,760	$ 32,070	$ 30,760	$ 28,000	$ 2,760	9.9	$ 32,070
Corporation Tax	329,974	252,030	329,974	237,000	92,974	39.2	252,030
Cigarette Tax	15,889	10,452	15,889	10,000	5,889	58.9	10,452
Estate, Inheritance, and Gift Tax	70,367	59,763	70,367	46,000	24,367	53.0	59,763
Insurance Companies Tax	19,926	18,219	19,926	15,000	4,926	32.8	18,219
Personal Income Tax	2,501,625	2,325,968	2,501,625	2,490,000	11,625	0.5	2,325,968
Retail Sales and Use Taxes	983,743	898,649	983,743	710,000	273,743	38.6	898,649
Pooled Money Investment Interest	10,571	11,137	10,571	10,000	571	5.7	11,137
Not Otherwise Classified	87,764	102,871	87,764	44,000	43,764	99.5	102,871
Total Revenues	**4,050,619**	**3,711,159**	**4,050,619**	**3,590,000**	**460,619**	**12.8**	**3,711,159**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfers from Other Funds	54,535	5,739	54,535	29,921	24,614	82.3	5,739
Miscellaneous	18,922	14,187	18,922	11,388	7,534	66.2	14,187
Total Nonrevenues	**73,457**	**19,926**	**73,457**	**41,309**	**32,148**	**77.8**	**19,926**
Total Receipts	**$ 4,124,076**	**$ 3,731,085**	**$ 4,124,076**	**$ 3,631,309**	**$ 492,767**	**13.6**	**$ 3,731,085**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2004				2003
	2004	2003	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 128,829	$ 112,656	$ 128,829	$ 89,278	$ 39,551	44.3	$ 112,656
State and Consumer Services	35,109	33,066	35,109	38,088	(2,979)	(7.8)	33,066
Business, Transportation and Housing	3,394	3,029	3,394	1,238	2,156	174.2	3,029
Resources	104,751	105,503	104,751	57,358	47,393	82.6	105,503
Environmental Protection Agency	2,951	14,088	2,951	3,471	(520)	(15.0)	14,088
Health and Human Services:							
Health Services	49,398	34,310	49,398	27,025	22,373	82.8	34,310
Mental Health Hospitals	51,097	43,594	51,097	46,426	4,671	10.1	43,594
Other Health and Human Services	83,906	102,434	83,906	95,085	(11,179)	(11.8)	102,434
Education:							
University of California	262,738	300,482	262,738	238,477	24,261	10.2	300,482
State Universities and Colleges	308,312	287,639	308,312	230,235	78,077	33.9	287,639
Other Education	14,383	14,477	14,383	16,371	(1,988)	(12.1)	14,477
Corrections and Youth Authority	320,732	318,894	320,732	390,042	(69,310)	(17.8)	318,894
General Government (d)	105,115	93,533	105,115	87,743	17,372	19.8	93,533
Public Employees Retirement System	232,902	134,920	232,902	185,013	47,889	25.9	134,920
Debt Service	1,410	10,936	1,410	1	1,409	140,900.0	10,936
Interest on Loans	1	34,070	1	30,000	(29,999)	(100.0)	34,070
Total State Operations	**1,705,028**	**1,643,631**	**1,705,028**	**1,535,851**	**169,177**	**11.0**	**1,643,631**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,671,601	3,084,830	2,671,601	2,163,786	507,815	23.5	3,084,830
Community Colleges	198,757	(4,128)	198,757	504,918	(306,161)	(60.6)	(4,128)
Contributions to State Teachers' Retirement System	702,904	171,592	702,904	702,904	-	-	171,592
Other Education (e)	113,450	203,006	113,450	308,088	(194,638)	(63.2)	203,006
Corrections and Youth Authority	607	2,782	607	675	(68)	(10.1)	2,782
Dept. of Alcohol and Drug Program	128,182	118,142	128,182	122,844	5,338	4.3	118,142
Dept. of Health Services:							
Medical Assistance Program	638,179	1,143,290	638,179	761,166	(122,987)	(16.2)	1,143,290
Other Health Services	13,549	(3,703)	13,549	23,827	(10,278)	(43.1)	(3,703)
Dept. of Developmental Services	211,859	209,507	211,859	739,363	(527,504)	(71.3)	209,507
Dept. of Mental Health	(127,066)	108,079	(127,066)	17,013	(144,079)	(846.9)	108,079
Dept. of Social Services:							
SSI/SSP/IHSS	628,383	515,951	628,383	614,568	13,815	2.2	515,951
CalWORKs	279,509	282,004	279,509	311,972	(32,463)	(10.4)	282,004
Other Social Services	70,649	64,873	70,649	88,139	(17,490)	(19.8)	64,873
Tax Relief	378,339	354,922	378,339	48,895	329,444	673.8	354,922
Other Local Assistance	251,393	217,368	251,393	182,760	68,633	37.6	217,368
Total Local Assistance	**6,160,295**	**6,468,515**	**6,160,295**	**6,590,918**	**(430,623)**	**(6.5)**	**6,468,515**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2004				2003
					Actual Over or (Under) Estimate		
	2004	2003	Actual	Estimate (a)	Amount	%	Actual
CAPITAL OUTLAY	**9,696**	**2,671**	**9,696**	**75,001**	**(65,305)**	**(87.1)**	**2,671**
PAYMENT OFFSETS FROM DEFICIT RECOVERY (c)	**-**	**-**	**-**	**(167,666)**	**167,666**	**-**	**-**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Other Funds	13	12,362	13	17,917	(17,904)	(99.9)	12,362
Transfer to Revolving Fund	(43,675)	(10,328)	(43,675)	-	(43,675)	-	(10,328)
Advance:							
State-County Property Tax Administration Program	-	-	-	-	-	-	-
Social Welfare Federal Fund	-	569	-	59,000	(59,000)	(100.0)	569
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	-	-	-	-	-
Total Nongovernmental	**(43,662)**	**2,603**	**(43,662)**	**76,917**	**(120,579)**	**(156.8)**	**2,603**
Total Disbursements	**$ 7,831,357**	**$ 8,117,420**	**$ 7,831,357**	**$ 8,111,021**	**$ (279,664)**	**(3.4)**	**$ 8,117,420**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ 2,216,023	$ 2,524,519	$ 2,216,023	$ 67,962	$ 2,148,061	3,160.7	$ 2,524,519
Other Internal Sources	952,899	1,423,706	952,899	4,411,750	(3,458,851)	(78.4)	1,423,706
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ 3,168,922**	**$ 3,948,225**	**$ 3,168,922**	**$ 4,479,712**	**$ (1,310,790)**	**(29.3)**	**$ 3,948,225**

See notes on page 1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through July 31			
	General Fund		**Special Funds**	
	2004	2003	2004	2003
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 30,760	$ 32,070	$ -	$ -
Corporation Tax	329,974	252,030	-	-
Cigarette Tax	15,889	10,452	128,325	93,648
Estate, Inheritance, and Gift Tax	70,367	59,763	-	-
Insurance Companies Tax	19,926	18,219	-	-
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	244,925	246,546
Diesel & Liquid Petroleum Gas	-	-	43,380	49,250
Jet Fuel Tax	-	-	248	238
Vehicle License Fees	-	-	67,576	148,199
Motor Vehicle Registration and Other Fees	-	-	177,405	152,366
Personal Income Tax	2,501,625	2,325,968	-	121
Retail Sales and Use Taxes	983,743	898,649	244,611	174,567
Pooled Money Investment Interest	10,571	11,137	6	8
Total Major Taxes, Licenses, and Investment Income	**3,962,855**	**3,608,288**	**906,476**	**864,943**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	189	142	7,192	5,403
Electrical Energy Tax	-	-	406	22,141
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	-	-
Health Care Receipts	9	(264)	-	-
Revenues from State Lands	10,722	4,607	-	-
Abandoned Property	(14,638)	(12,078)	-	-
Trial Court Revenues	4,969	(1)	40,986	-
Horse Racing Fees	126	148	2,407	2,941
Miscellaneous	86,387	110,317	462,370	502,384
Not Otherwise Classified	**87,764**	**102,871**	**513,361**	**532,869**
Total Revenues, All Governmental Cost Funds	**$ 4,050,619**	**$ 3,711,159**	**$ 1,419,837**	**$ 1,397,812**

See notes on page 1.

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APPENDIX B

DTC AND THE BOOK–ENTRY SYSTEM

The information in the following section entitled "DTC's Book–Entry System" has been provided by DTC for use in securities offering documents, and the State takes no responsibility for the accuracy or completeness thereof. The State cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC's Book–Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully–registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully–registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited–purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non–U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post–trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book–entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly–owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "GSCC," "MBSCC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book–entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The State Treasurer will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State Treasurer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the State Treasurer, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State Treasurer, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

If the State Treasurer determines not to continue the DTC book–entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State will deliver physical Bond certificates to the beneficial owners. The Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolution. Certificated bonds may be exchanged for Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolution. No transfer or exchange of Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

THE STATE TREASURER, AS LONG AS A BOOK–ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” HEREIN) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed as of September __, 2004, by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of $______ aggregate principal amount of the State of California Various Purpose General Obligation Bonds (the "Bonds") as authorized by various acts of the State of California legislature (the "Acts"). The Bonds are being issued pursuant to resolutions of finance committees (the "Resolutions"), created under the Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

SECTION 1. <u>Nature of the Disclosure Certificate</u>. This Disclosure Certificate is executed for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the State or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean the Annual Report filed by the State Treasurer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the State Treasurer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the State Treasurer.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission to be the recipient of information of the nature of the Annual Reports required by this Disclosure Certificate.

"Official Statement" shall mean the official statement relating to the Bonds, dated September __, 2004.

"Participating Underwriter" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2–12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity within the State created for the purpose of receiving information of the nature of the reports of material events required by this Disclosure Certificate and recognized as such by the Securities and Exchange Commission (the "S.E.C."). As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The State Treasurer on behalf of the State shall, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report containing 2003–2004 Fiscal Year financial information, provide an Annual Report consistent with the requirements of this Disclosure Certificate (an "Annual Report") to each Repository; provided that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. The State Treasurer shall make a copy of any Annual Report available to any person who requests a copy at a cost not exceeding the reasonable cost of duplication and delivery.

(b) If in any year, the State Treasurer does not provide the Annual Report to each Repository by the time specified above, the State Treasurer shall instead file a notice with each Repository stating that the Annual Report has not been timely completed and, if known, stating the date by which the State Treasurer expects to file the Annual Report.

(c) If the Dissemination Agent is not the State Treasurer, the Dissemination Agent shall:

1. determine each year prior to the date for filing the Annual Report the name and address of each Repository then certified by the S.E.C.;

2. file a report with the State Treasurer certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing all the Repositories with which it was filed and the dates of the filings; and

3. take any other actions mutually agreed to between the Dissemination Agent and the State Treasurer.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(1) The audited General Purpose Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to this Disclosure Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(2) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating the following tables which appear under the caption "APPENDIX A – THE STATE OF CALIFORNIA – CURRENT STATE BUDGET" in the Official Statement:

Table Entitled

Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund

Major General Fund Revenue Sources and Expenditures

(3) Information concerning the total amount of the State's authorized and outstanding debt, long–term lease obligations and other long–term liabilities as of the end of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short–term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease–purchase debt. This shall be accomplished by updating the following tables which appear under the caption APPENDIX A — "THE STATE OF CALIFORNIA—STATE DEBT TABLES" in the Official Statement.

Table Entitled

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

Schedule of Debt Service Requirements for General Fund
Non-Self Liquidating Bonds — Fixed Rate

Schedule of Debt Service Requirements for General Fund
Non-Self Liquidating Bonds — Variable Rate

Schedule of Debt Service Requirements for Enterprise Fund
Self Liquidating Bonds — Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund
Self Liquidating Bonds — Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund
Self Liquidating Bonds — Variable Rate

Schedule of Debt Service Requirements for General Fund Lease Revenue Bonds

State Public Works Board and Other
Lease-Purchase Financing Outstanding Issues

State Agency Revenue Bonds and
Conduit Financing

The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with each of the Repositories, including any final official statement (in which case such final official statement must also be available from the Municipal Securities Rulemaking Board). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the State Treasurer, on behalf of the State, shall give, or cause to be given, prompt notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non–payment related defaults;

3. modifications to rights of Holders;

4. optional, contingent or unscheduled bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax–exempt status of the Bonds;

8. unscheduled draws on debt service reserves reflecting financial difficulties;

9. unscheduled draws on credit enhancements reflecting financial difficulties;

10. substitution of credit or liquidity providers, or their failure to perform; or

11. release, substitution or sale of property securing repayment of the Bonds.

The State Treasurer notes that items 8 through 11 above may not be applicable to the Bonds.

(b) The State Treasurer shall timely file a notice of the occurrence of a Listed Event, which is material under applicable federal securities laws, with the Municipal Securities Rulemaking Board and each Repository.

SECTION 6. Termination of Reporting Obligation. The State's obligations under Section 3, 4 and 5 of this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the outstanding Bonds. If such termination occurs prior to the final maturity of the Bonds, the State Treasurer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination

Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend or waive any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), or 8, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60% of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The State also may amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the Securities and Exchange Commission.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

SECTION 11. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 12. Governing Law. The laws of the State of California shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in Sacramento County, California.

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

By ______________________________________
Deputy State Treasurer
For State Treasurer, Philip Angelides

APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

FORM OF FINAL OPINION OF EACH CO–BOND COUNSEL

[Closing Date]

$____________
State of California
Various Purpose General Obligation Bonds

____
(Final Opinion)

We have acted as co-bond counsel in connection with the issuance by the State of California (the "State") of $___________ aggregate principal amount of State of California Various Purpose General Obligation Bonds issued as seven separate series under seven bond acts, identified in Schedule A hereto (collectively, the "Bonds"). The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees created under the Laws.

In such connection, we have examined the Resolutions, the tax certificate of the State (the "Tax Certificate"), other certifications of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all documents and the signatures thereto.

Certain agreements, requirements and procedures contained or referred to in the Resolution, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in the documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions and the Tax Certificate, including (without limitation) agreements and covenants compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The State has lawful authority for the issuance of the Bonds, and the Bonds constitute valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds as the principal and interest become due and payable.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of calculating the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Very truly yours,

Schedule A

$128,390,000[*] principal amount of State of California Class Size Reduction Kindergarten–University Public Education Facilities Bonds, Series AY, authorized by the Higher Education Facilities Finance Committee under the Class Size Reduction Kindergarten–University Public Education Facilities Bond Act of 1998.

$79,140,000[*] principal amount of State of California Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bonds, Series N, authorized by the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Finance Committee under the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000.

$61,145,000[*] principal amount of State of California Kindergarten–University Public Education Facilities Bonds, Series J, authorized by the Higher Education Facilities Finance Committee under the Kindergarten–University Public Education Facilities Bond Act of 2002.

$61,130,000[*] principal amount of State of California Voting Modernization Bonds, Series A, authorized by the Voting Modernization Finance Committee under the Voting Modernization Bond Act of 2002.

$70,715,000[*] principal amount of State of California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bonds, Series D, authorized by the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act Finance Committee under the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act of 2002.

$54,830,000[*] principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series L, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act of 2000.

$44,650,000[*] principal amount of State of California Safe, Clean, Reliable Water Supply Bonds, Series Q, authorized by the Safe, Clean, Reliable Water Supply Finance Committee under the Safe, Clean, Reliable Water Supply Act of 1996.

[*] Preliminary, subject to change.

FORM OF OPINION OF THE ATTORNEY GENERAL

[Closing Date]

The Honorable Philip Angelides
State Treasurer
Sacramento, California

$__________
State of California
Various Purpose General Obligation Bonds

Final Opinion

Honorable Philip Angelides:

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of $_________ aggregate principal amount of State of California Various Purpose General Obligation Bonds, dated September 1, 2004, issued as seven separate series under seven bond acts, all identified in Schedule A hereto, which is incorporated by reference (collectively, the "Bonds"). The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees created under the Laws.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof.

We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions. We call attention to the fact that the rights and obligations under the Bonds and the Resolutions may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in State law regarding legal remedies against the State. We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated September __, 2004, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State of California are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable.

Sincerely,

Deputy Attorney General

For BILL LOCKYER
Attorney General

Schedule A

$128,390,000[*] principal amount of State of California Class Size Reduction Kindergarten–University Public Education Facilities Bonds, Series AY, authorized by the Higher Education Facilities Finance Committee under the Class Size Reduction Kindergarten–University Public Education Facilities Bond Act of 1998.

$79,140,000[*] principal amount of State of California Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bonds, Series N, authorized by the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Finance Committee under the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000.

$61,145,000[*] principal amount of State of California Kindergarten–University Public Education Facilities Bonds, Series J, authorized by the Higher Education Facilities Finance Committee under the Kindergarten–University Public Education Facilities Bond Act of 2002.

$61,130,000[*] principal amount of State of California Voting Modernization Bonds, Series A, authorized by the Voting Modernization Finance Committee under the Voting Modernization Bond Act of 2002.

$70,715,000[*] principal amount of State of California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bonds, Series D, authorized by the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act Finance Committee under the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act of 2002.

$54,830,000[*] principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series L, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act of 2000.

$44,650,000[*] principal amount of State of California Safe, Clean, Reliable Water Supply Bonds, Series Q, authorized by the Safe, Clean, Reliable Water Supply Finance Committee under the Safe, Clean, Reliable Water Supply Act of 1996.

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[*] Preliminary, subject to change.

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APPENDIX E

NOTICE OF SALE

STATE OF CALIFORNIA
$500,000,000* VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Bids will be received by the Honorable Philip Angelides, Treasurer of the State of California (the "State Treasurer"), for the purchase of $500,000,000* principal amount of State of California Various Purpose General Obligation Bonds, dated September 1, 2004 (the "Bonds"). Bidding procedures and sale terms are as follows.

The State Treasurer reserves the right, prior to the date of the sale, to modify this Notice of Sale, including changing the Maturity Schedule, the redemption provisions or the aggregate principal amount of Bonds offered for sale. Any such modifications will be announced via The Bond Buyer Wire (available on TM3, the Thomson Municipal Market Monitor at http://www.tm3.com) not later than Wednesday, September 8, 2004, by 11:00 a.m., California time. Any such modification will also be posted on the State Treasurer's Internet site at http://www.treasurer.ca.gov. Bidders are required to bid upon the Bonds as so modified. The State Treasurer reserves the right to postpone or cancel the sale at any time.

ISSUE: The Bonds are described in the State of California's Preliminary Official Statement dated September 1, 2004 ("Preliminary Official Statement").

TIME: Bids must be delivered by 9:00 A.M., California time, on Thursday, September 9, 2004.

PLACE: Bids must be delivered to the Office of the State Treasurer in Sacramento, California at 915 Capitol Mall.

- Bidders may hand deliver bids to Room 261.
- Instead of hand delivery, bidders may electronically deliver bids as described under "ELECTRONIC BIDS" below.

Each bidder (and not the State Treasurer) is responsible for the timely delivery of its bid, whether delivered by hand or electronically. The official time will be determined by the State Treasurer and not by any bidder (defined below).

ELECTRONIC BIDS: Solely as an accommodation to bidders, the State Treasurer will receive bids delivered electronically through the following service ("Bid Service"):

- i-Deal LLC
  40 West 23rd Street, 5th Floor
  New York, New York 10010
  (212) 812-4447

* Preliminary, subject to change.

Each bidder submitting an electronic bid agrees by doing so that it is solely responsible for all arrangements with the Bid Service, that the State Treasurer does not endorse or encourage the use of the Bid Service, that the Bid Service is not acting as an agent of the State Treasurer, and that the State Treasurer is not responsible for ensuring or verifying bidder compliance with the Bid Service's procedures. The State Treasurer is not responsible for, and each bidder expressly assumes the risk of and responsibility for, any incomplete, inaccurate or untimely bid submitted by such bidder. Instructions for submitting electronic bids must be obtained by each bidder from the Bid Service. If any provision of this Notice of Sale conflicts with information provided by the Bid Service, this Notice of Sale shall control.

INTEREST: Bidders must specify the rate or rates of interest which the Bonds will bear, subject to the following limitations. Interest will accrue from September 1, 2004. Interest may not exceed eleven percent (11%) per annum, payable on March 1 and September 1 in each year, commencing March 1, 2005. Bidders may specify any number of separate rates and the same rate or rates may be repeated as often as desired, but:

- each interest rate specified in any bid must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%),
- no Bond shall bear more than one rate of interest,
- each Bond shall bear interest from its date to its stated maturity date at the interest rate specified in the bid,
- all Bonds of the same maturity shall bear the same rate of interest, and
- all mandatory sinking fund payments shall bear the same rate of interest as the term Bonds to which they relate.

PRINCIPAL: The Bonds will mature or be subject to mandatory sinking fund redemption on March 1 in any of the years from 2005 to 2034* inclusive, in amounts set forth in the Bid Form, subject to modification as stated above. Each bid must specify whether the principal amount of Bonds to be paid on each March 1 will be a payment at maturity of serial Bonds or a mandatory sinking fund payment on term Bonds. The mandatory sinking fund payments for each term Bond must be on consecutive annual payment dates immediately preceding the maturity date of that term Bond, provided that no term Bond maturing after the first optional redemption date of the Bonds may have a sinking fund payment on or prior to the first optional redemption date. All mandatory sinking fund installments shall bear the same rate of interest as the Bonds to which they relate.

REDEMPTION: The Bonds maturing on or before March 1, 2014 are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on and after March 1, 2015 are subject to optional redemption prior to their stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after September 1, 2014 at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption.

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* Preliminary, subject to change.

In the event the successful bidder specifies in its bid that any Bonds are to be term Bonds with mandatory sinking fund payments, those Bonds will be subject to redemption prior to maturity, in part, by lot, at 100 percent of the principal amount to be redeemed plus accrued interest to the sinking fund payment date fixed for redemption, without premium, from mandatory sinking fund payments.

LEGAL OPINIONS AND NO LITIGATION CERTIFICATE: The opinions of Co-Bond Counsel and the Attorney General referred to in the Preliminary Official Statement under "LEGAL MATTERS" will be furnished to the successful bidder on the Closing Date. The successful bidder will also receive a certificate of the Attorney General that to his knowledge there is not now pending (with service of process on the State having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds or any proceedings of the State taken with respect to the foregoing.

ADDITIONAL INFORMATION: Prospective bidders should read the entire Preliminary Official Statement, copies of which may be obtained from the State Treasurer at P.O. Box 942809, Sacramento, California 94209-0001 (1-800-900-3873). The Preliminary Official Statement is available on the State Treasurer's Internet site at http://www.treasurer.ca.gov.

FORM OF BID: Each bid must be unconditional, and in the amount of not less than 100 percent of the principal amount, plus accrued interest to the date of delivery of the Bonds. By submitting a bid, the bidder agrees to all of the terms and conditions of this Notice of Sale, as modified by the State Treasurer pursuant to the second paragraph of this Notice of Sale. Bids are not required to be submitted on the Bid Form attached to this Notice of Sale. However, each bid must include the information required by that Bid Form.

GOOD FAITH DEPOSIT: Each bidder is required to provide to the State Treasurer a good faith deposit of one-half of one percent of the principal amount of the Bonds ($2,500,000). The deposit may be a surety bond or a cashier's check payable to the Treasurer of the State of California and drawn on a bank having a demand account relationship with the State Treasurer's Office. If a cashier's check is used, it must be submitted to the State Treasurer prior to the submission of the bid or with the bid. If a surety bond is used, it must be issued by an insurance company licensed to issue such a bond in the State and it must be submitted to the State Treasurer prior to the submission of the bid. A surety bond must identify each bidder whose good faith deposit is covered by the surety bond. Surety bonds must be submitted to the State Treasurer at 915 Capitol Mall, Room 261, Sacramento, California 95814, attn: Ken Yu.

If the Bonds are awarded to a bidder using a surety bond as the good faith deposit, the successful bidder is required to replace the surety bond with a cashier's check or a wire transfer of federal funds not later than 3:30 P.M. (California time) on the next business day following the award. Immediately following the award, please contact Ken Yu at the State Treasurer's Office at (916) 657-4923 for wire instructions. If the replacement check or wire transfer is not received by that time, the surety bond may be drawn by the State Treasurer to satisfy the good faith deposit requirement.

The deposit of the successful bidder will, upon the acceptance of its bid, become the property of the State and will be credited to the purchase price of the Bonds at the time of delivery of the Bonds. If the purchase price is not paid in full when due, the defaulting bidder shall have no right to the Bonds and its deposit shall be retained by the State Treasurer as and for full liquidated damages for such default and shall constitute a full release and discharge of all claims and rights of the State against such defaulting bidder and a waiver of any right the State may have to additional damages for any such default. By submitting a bid each bidder waives any right to claim that actual damages resulting from any such default are less than the deposit, and agrees that the amount of the deposit is a reasonable estimate of damages that the State may suffer in the event of such a default.

All checks of unsuccessful bidders will be returned promptly. No interest will be paid by the State on any good faith deposit.

BASIS OF THE AWARD: The Bonds will be awarded to the bidder whose bid will result in the lowest true interest cost ("TIC") to the State. The TIC will be the nominal interest rate which, when compounded semiannually and used to discount the debt service payments on all of the Bonds to the date of the Bonds, results in an amount equal to the purchase price bid for all of the Bonds, excluding interest accrued to the date of delivery. For the purpose of calculating the TIC, the principal amount of Bonds designated by the bidder for mandatory sinking fund redemption as part of a term Bond, if any, shall be treated as a serial maturity in each year. In the event that two or more bidders offer bids at the same lowest TIC for the Bonds, the State Treasurer will determine by lot which bidder will be awarded the Bonds. The successful bidder must pay accrued interest, computed on a 360-day year basis, from the date of the Bonds to the date of delivery of the Bonds. The cost of preparing the Bonds will be borne by the State.

PROMPT AWARD: The State Treasurer will take action awarding the Bonds or rejecting all bids for the Bonds not later than 24 hours after the time specified for the receipt of the bids, unless such time is waived by the successful bidder. Notice of award will be given promptly by telephone by the State Treasurer to the successful bidder. Bid evaluations or rankings by any Bid Service are not binding on the State Treasurer.

INSURANCE: If the successful bidder arranges municipal bond insurance for any Bonds, it does so at its own risk and expense and the obligation of the successful bidder to pay for the Bonds may not be conditioned upon the issuance of a municipal bond insurance policy. The State will not enter into any additional agreements with any bond insurer. Co-Bond Counsel will charge the successful bidder a fee of $3,000 for providing a legal opinion addressed to any bond insurer.

EXPENSES OF SUCCESSFUL BIDDER: CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees (California Government Code Section 8856), DTC charges and all other expenses of the successful bidder will be the responsibility of the successful bidder.

VOLUNTARY GASB FEE: The State is participating in the voluntary program to pay a fee of .0005 percent of the principal amount of the Bonds sold to support the work of the Governmental Accounting Standards Board. Pursuant to the arrangements established by The Bond Market Association, the State will direct the successful bidder to apply, on the State's behalf, the amount of the GASB Fee from the proceeds of the winning bid (the purchase price of the Bonds) and forward this amount to The Bond Market Association for ultimate transfer to the Financial Accounting Foundation. Payment of the GASB Fee will not affect the bid price, the calculation of the TIC, or the winning bidder's compensation.

RIGHT OF WAIVER OR REJECTION: The State Treasurer may waive any irregularity or informality in any bid, reject any bid not conforming to this Notice of Sale or reject all bids.

CERTIFICATE CONCERNING REOFFERING PRICES: Prior to the delivery of the Bonds, the successful bidder must submit to the State Treasurer a certificate, satisfactory to Co-Bond Counsel, specifying for each maturity of the Bonds the expected bona fide reoffering price to the general public of such Bonds of each such maturity, as of the date of the award of the Bonds and stating that at least 10 percent of each maturity was sold to the general public at the prices indicated. The certificate must also identify the amounts, maturities and prices at which any Bonds were actually sold to institutions or other investors at a discount from the offering prices to the general public. For this purpose, sales of Bonds to other securities brokers or dealers will not be counted as sales to the general public. In making such representations, the successful bidder must reflect the effect on the offering prices of any "derivative products" used in connection with the initial sale of any of the Bonds.

PARTICIPATION GOALS: Firms owned by disabled veterans are encouraged to respond to this invitation for bid. The State Treasurer has adopted regulations and participation goals for professional bond services firms owned by disabled veterans. These participation goals are set forth in Article 3 of Subchapter 4 of Chapter 4, Division 2 of Title 2 of the California Code of Regulations in Section 1899.522. On September 4, 2001, the Court of Appeal issued a decision in *Connerly v. State Personnel Board, et al.* that invalidated participation goals for minority and women business enterprises. As a result of that decision, which is now final, the regulations as they relate to minority and women business enterprises participation goals are inoperative. The court approved of the collection of data on the participation of minority and women business enterprises.

By submitting a bid, each bidder certifies to all of the following on behalf of itself and its syndicate or selling group:

- Bidder is aware of the State Treasurer's regulations and participation goals for disabled veteran business enterprises offering professional bond services.

- Bidder is aware that existing law requires the bidder to demonstrate a good faith effort (as defined in Section 1899.501 of Article 1 of Subchapter 4 of Chapter 4, Division 2 of Title 2 of the California Code of Regulations) toward the State Treasurer's participation goals for disabled veteran-owned firms.

- Bidder is aware and acknowledges that if the State Treasurer concludes prior to award that the bidder has not demonstrated a good faith effort, the State Treasurer is authorized under existing laws to award the contract to the next lowest responsive and responsible bidder.

After completion of the transaction, successful bidders will be required to submit reports to the State Treasurer concerning disabled veteran business enterprise outreach efforts and professional bond service participation in transactions related to the offer and sale of the Bonds. The State Treasurer's annual goal for disabled veteran business enterprises' participation on competitive contracts for professional bond services is 3 percent. Successful bidders will also be required to submit reports on professional bond service participation by minority and women business enterprises as well as all other businesses. The reports on minority and women business enterprises will be maintained solely for informational and data collection purposes.

DELIVERY AND PAYMENT: The Bonds will be made available to the successful bidder for inspection at the office of the State Treasurer, at least two business days prior to the date fixed for delivery of the Bonds (the "Closing Date"). The Closing Date is expected to be September 21, 2004. Payment for the Bonds must be made simultaneously with such settlement on the Closing Date and must be in funds immediately available in Sacramento, California, in the form of a cashier's check payable to the order of the "Treasurer of the State of California" and drawn on a bank having a demand account relationship with the State Treasurer's Office or a wire transfer of federal funds to the State Treasurer. The successful bidder has the right, at its option, to cancel its obligation to purchase the Bonds if the State fails to tender the Bonds as described above for a Closing Date within 60 days from the award to the successful bidder; in that event the successful bidder will be entitled to the return (without payment of interest) of its good faith deposit.

OFFICIAL STATEMENT: The State deems the Preliminary Official Statement, for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) (the "SEC Rule"), to be final as of its date, except for information permitted by the SEC Rule to be omitted from the Preliminary Official Statement (but the Preliminary Official Statement shall be subject to amendment or modification as deemed necessary by the State Treasurer).

The State will furnish without cost up to 500 copies of a final Official Statement to the successful bidder within seven working days after the award of the Bonds.

The State will deliver, on the Closing Date, a certificate executed by the State Treasurer to the effect that, to the best of the State Treasurer's knowledge and belief, as of the Closing Date, the information contained in the final Official Statement, as supplemented by any supplement delivered on or prior to the Closing Date, relating to the State and the Bonds is true and correct in all material respects, and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The State undertakes that for a period up to the earlier of (a) 25 days following the "end of the underwriting period" (as defined in the SEC Rule) or (b) the date when all of the Bonds have been sold by the successful bidder, it will (i) apprise the successful bidder of all material events, if any, occurring with respect to the State and the Bonds after the Closing Date, and (ii) if requested by the successful bidder, prepare a supplement to the final Official Statement in respect of any material event; provided, however, that the costs and expenses, including legal fees and expenses, associated with providing any such supplement in respect of any material event occurring after the end of the "underwriting period" will be borne by the successful bidder. The State will presume that the end of the underwriting period will occur on the Closing Date and all of the Bonds have been sold by the successful bidder as of the Closing Date unless notified otherwise in writing by the successful bidder on or prior to the Closing Date.

By making a bid for the Bonds, the successful bidder agrees to:

- provide to the State Treasurer, in writing, within 24 hours of the acceptance of the bid, pricing and other related information necessary for completion of the final Official Statement,
- disseminate to all members of the underwriting syndicate copies of the Official Statement, including any supplements prepared by the State,
- promptly notify the State as soon as all of the Bonds have been sold by the successful bidder if any Bonds are unsold on the Closing Date;
- promptly file a copy of the final Official Statement, including any supplements prepared by the State, with each Nationally Recognized Municipal Securities Information Repository, and
- take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

CONTINUING DISCLOSURE: In order to assist the successful bidder in complying with the SEC Rule, the State Treasurer, on behalf of the State, will undertake, pursuant to a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate"), to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement. The State Treasurer, on behalf of the State, will deliver the Continuing Disclosure Certificate on the Closing Date. The State has never failed to materially comply with any continuing disclosure obligations relating to any bonds for which the State was an "obligated person" within the meaning of the SEC Rule.

Dated: September 1, 2004
Sacramento, California

PHILIP ANGELIDES

Treasurer of the State of California

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BID FORM

BID FOR THE PURCHASE OF STATE OF CALIFORNIA VARIOUS PURPOSE GENERAL OBLIGATION BONDS

The Honorable Philip Angelides
Treasurer of the State of California

We offer to purchase the $500,000,000* aggregate principal amount of State of California Various Purpose General Obligation Bonds, dated September 1, 2004 (the "Bonds"), for a purchase price of 100 percent of the principal amount of the Bonds, plus a premium of $____________, together with accrued interest from September 1, 2004 to the date of delivery with the following terms.

Maturity Date (March 1)	Maturing Principal Amount*	Adjusted Principal Amount	Interest Rate	Serial Maturity*	or	Sinking Fund Installment*	Maturity Date of Term Bond*
2005	$20,795,000	$________	____%	______		______	______
2006	$25,000,000	$________	____%	______		______	______
2007	$25,000,000	$________	____%	______		______	______
2008	$25,000,000	$________	____%	______		______	______
2009	$22,500,000	$________	____%	______		______	______
2010	$18,000,000	$________	____%	______		______	______
2011	$ 9,805,000	$________	____%	______		______	______
2012	$10,295,000	$________	____%	______		______	______
2013	$10,810,000	$________	____%	______		______	______
2014	$11,350,000	$________	____%	______		______	______
2015	$11,915,000	$________	____%	______		______	______
2016	$12,515,000	$________	____%	______		______	______
2017	$ 0	$________	____%	______		______	______
2018	$ 0	$________	____%	______		______	______
2019	$ 0	$________	____%	______		______	______
2020	$ 0	$________	____%	______		______	______
2021	$ 0	$________	____%	______		______	______
2022	$16,770,000	$________	____%	______		______	______
2023	$17,605,000	$________	____%	______		______	______
2024	$18,485,000	$________	____%	______		______	______
2025	$19,410,000	$________	____%	______		______	______
2026	$20,380,000	$________	____%	______		______	______
2027	$21,400,000	$________	____%	______		______	______
2028	$22,470,000	$________	____%	______		______	______
2029	$23,595,000	$________	____%	______		______	______
2030	$24,775,000	$________	____%	______		______	______
2031	$26,015,000	$________	____%	______		______	______
2032	$27,315,000	$________	____%	______		______	______
2033	$28,680,000	$________	____%	______		______	______
2034	$30,115,000	$________	____%	______		______	______

*Each bidder must specify whether the principal amount of Bonds on the particular date will be a serial maturity or a mandatory sinking fund installment. The bidder must also specify the maturity date of any term bond(s). In the case of electronic bids, the interest rate specified for a term bond shall be deemed to apply to each sinking fund installment of such term bond.

____
Account Manager
By: ______________________________________
Contact: ______________________________________
Telephone No.__________ Fax No.__________

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